COPY

BEFORE THE

INDIANA UTILITY REGULATORY COMMISSION

FILED

APR 27 2007

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF THE BOARD OF DIRECTORS FOR UTILITIES OF THE DEPARTMENT OF PUBLIC UTILITIES OF THE CITY OF INDIANAPOLIS, AS SUCCESSOR TRUSTEE OF A PUBLIC CHARITABLE TRUST, D/B/A CITIZENS THERMAL ENERGY FOR (1) AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR STEAM UTILITY SERVICE, (2) APPROVAL OF A NEW SCHEDULE OF RATES AND CHARGES APPLICABLE THERETO, (3) APPROVAL OF CHANGES TO ITS GENERAL TERMS AND CONDITIONS FOR STEAM SERVICE, (4) APPROVAL OF NEW DEPRECIATION ACCRUAL RATES, AND (5) APPROVAL FOR THE QUARTERLY FILING OF FUEL COST ADJUSTMENT APPLICATIONS.	**CAUSE NO. 43201**

SUPPLEMENTAL DIRECT TESTIMONY AND EXHIBITS OF CAREY B. LYKINS WILLIAM A. TRACY LATONA S. PRENTICE and KERRY A. HEID

On Behalf of Petitioner, Citizens Thermal Energy

Volume IV

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April 27, 2007

BEFORE THE

INDIANA UTILITY REGULATORY COMMISSION

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VOLUME IV
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SUPPLEMENTAL DIRECT TESTIMONY AND EXHIBIT
of
CAREY B. LYKINS

On
Behalf of
Petitioner

Citizens Thermal Energy

Petitioner's Exhibit CBL-S

INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Carey B. Lykins. My business address is 2020 North Meridian Street, Indianapolis, Indiana.

Q. ARE YOU ALSO SPONSORING PETITIONER'S EXHIBIT CBL AND CERTAIN OTHER EXHIBITS IN THIS PROCEEDING?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL DIRECT TESTIMONY?

A. The purpose of my supplemental direct testimony is to update my initial prefiled direct testimony for events related to the disposition of the manufacturing plant that occurred after that testimony was prefiled.

CLOSURE OF THE MANUFACTURING PLANT

Q. MR. LYKINS, IN YOUR INITIALLY PREFILED DIRECT TESTIMONY YOU STATED THAT THE BOARD IS CURRENTLY IN THE PROCESS OF FINALIZING PLANS FOR THE DISPOSITION OF THE MANUFACTURING PLANT. HAS THE BOARD TAKEN FURTHER ACTION REGARDING THE DISPOSITION OF THE MANUFACTURING PLANT?

A. Yes, it has. On April 11, 2007, the Board unanimously adopted a Resolution authorizing and directing cessation of operations at the manufacturing plant as

soon as reasonably practicable. A certified copy of that Resolution is attached to my supplemental testimony as Petitioner's Exhibit CBL-1S.

Q. DID PETITIONER'S INITIAL CASE-IN-CHIEF FILING ASSUME CLOSURE OF THE MANUFACTURING PLANT?

A. No. At the time we prefiled our case-in-chief testimony on April 2, 2007, we were hopeful that a sale of the manufacturing plant could be achieved. Accordingly, our case-in-chief filing assumed a sale scenario. Unfortunately, after working with an investment banker for 11 months and extensive negotiations with one prospective buyer for more than five months, we were unable to reach an agreement to sell the facility.

Q. PLEASE GENERALLY DESCRIBE THE EFFECTS CLOSURE OF THE MANUFACTURING PLANT WILL HAVE ON THE STEAM SYSTEM.

A. Disposition of the manufacturing plant will affect the amount of Corporate Support Service costs that are allocated to the Steam System. That effect, which would be the same whether the plant is closed or sold, is discussed in the direct testimony of John R. Brehm that was initially prefiled as part of Petitioner's case-in-chief on April 2, 2007. Additionally, unlike the sale scenario, coke oven gas produced by the manufacturing plant no longer will be available to the Steam System as a fuel source after the plant closes. The effects on the Steam System of losing coke oven gas as a fuel source are discussed in the supplemental testimony of Mr. William A. Tracy and Ms. LaTona S. Prentice.

CONCLUSION

Q. DOES THAT CONCLUDE YOUR SUPPLEMENTAL DIRECT TESTIMONY?

A. Yes it does.

VERIFICATION

STATE OF INDIANA)
) ss:
COUNTY OF MARION)

The undersigned, Carey B. Lykins, under penalties of perjury and being first duly sworn on his oath, says that he is the President and Chief Executive Officer of Citizens Thermal Energy; that he has caused to be prepared and read the foregoing Supplemental Direct Testimony; and that the representations set forth therein are true and correct to the best of his knowledge, information and belief.

Carey B Lykins

By: Carey B Lykins
President and Chief Executive Officer
Citizens Thermal Energy

Subscribed and sworn to before me, a Notary Public, this 25th day of APRIL, 2007.

Kim M. Potochnik
Signature

Kim M. Potochnik
Printed Name

My Commission Expires: Sept. 28, 2009

My County of Residence: Marion

STATE OF INDIANA)
) SS:
COUNTY OF MARION)

VERIFIED CERTIFICATE OF RESOLUTION OF
THE BOARD OF DIRECTORS FOR UTILITIES
OF THE DEPARTMENT OF PUBLIC UTILITIES
OF THE CITY OF INDIANAPOLIS d/b/a
CITIZENS GAS & COKE UTILITY

The undersigned officer hereby certifies the following resolution was adopted by the Board of Directors for Utilities of the Department of Public Utilities of the City of Indianapolis d/b/a Citizens Gas & Coke Utility on April 11, 2007, to-wit:

WHEREAS, in 1887, a group of citizens in the City of Indianapolis (the "City") formed Consumers' Gas Trust Company (the "1887 Company") to resist a threatened monopoly by the Indianapolis Gas Company, a privately-owned company and the sole supplier of natural gas to the City at that time. In 1905, however, it was determined that the 1887 Company could no longer carry out its purposes and the City was entitled to acquire its mains and other assets;

WHEREAS, in 1906, the Citizens Gas Company (the "1906 Company") was created pursuant to General Ordinance No. 72, issued by the City's Common Council, to acquire the assets of the 1887 Company and supply natural gas to the City and its inhabitants;

WHEREAS, the decision in Todd v. Citizens' Gas Co. of Indianapolis, 46 F.2d 855 (7th Cir. 1931), held, based on the circumstances surrounding the formation of the 1906 Company, that its assets were subject to a public charitable trust (the "Trust");

WHEREAS, the City became the successor trustee of the Trust in 1935 when it acquired the assets of the 1906 Company and expressly accepted the Trust and the terms thereof under General Ordinance No. 82 of the Common Council of the City of Indianapolis;

WHEREAS, under IND. CODE § 8-1-11.1-3(a), the Board of Directors for Utilities (the "Board") of the Department of Public Utilities of the Consolidated City of Indianapolis and Marion County, Indiana, d/b/a Citizens Gas and Coke Utility (the "Department") has the "exclusive government, management, regulation, and control of all public utilities consisting of any . . . gasworks . . . operated upon . . . or below any street or territory within the city . . . and all property which the city may hold as trustee for the benefit of the inhabitants of such city." The Department exclusively manages and controls the sole distribution system of gas to the inhabitants of the City of Indianapolis and Marion County;

WHEREAS, the property and assets of the Trust are maintained and operated to: (i) provide the City, Marion County and its inhabitants with light, heat and power, and (ii) to prevent the private ownership and control of the Trust's gas distribution system;

WHEREAS, one of the Department's lines of business has been its manufacturing division, through which the Department owns and operates coke oven batteries and related assets that produce coke oven gas, metallurgical coke and other byproducts for sale to customers (the "Manufacturing Division");

WHEREAS, for many years, the Manufacturing Division's coke oven gas was mixed with natural gas for use in the Department's gas distribution system. However, pursuant to an agreement dated November 1, 1996, the Department sold all of its available coke oven gas to Indianapolis Power & Light Company ("IPL") for its use in the production of steam. Therefore, from late 1996 coke oven gas was no longer used by the Department as a source of gas supply for distribution to other customers in the City. IPL subsequently sold the Perry K steam plant to the Department's Citizens Thermal Energy Division, which continues to purchase coke oven gas for use as a fuel in the production of steam;

WHEREAS, in April 2006, as a result of various factors related to the continuing viability of the business of the Manufacturing Division, including, but not limited to, the Manufacturing Division's inability to produce competitively-priced coke in a world market impacted by low-cost foreign steel and coke producers paying very low wages while not meeting stringent environmental standards, as well as steep declines in the United States steel and automobile industries resulting in greatly reduced demand for domestically produced coke, the Department began a process through which it sought potential buyers of the Manufacturing Division;

WHEREAS, in May 2006, the Department engaged KeyBanc Capital Markets, an experienced investment banking firm, to assist in the process and in June 2006 contacted seventeen (17) companies that might be interested in the acquisition and continued operation of the Manufacturing Division. Included in those initial seventeen (17) contacts were potential strategic buyers, integrated steel mills, merchant coke producers, metallurgical coal suppliers and investment capital firms all of which were selected based upon, among other things, capability, reputation and commitment to not only acquire and operate the plant, but also to meet ongoing environmental responsibility and stewardship at the site, recognizing that the Trust would be responsible for any required pre-closing remediation as well as potential exposure for post-closing issues if the site were abandoned by the buyer or otherwise reverted to the Department;

WHEREAS, of the seventeen (17) companies the Department contacted, two (2) potential qualified buyers submitted offers and on September 28, 2006 the Department entered into a letter of intent with the potential buyer making the highest and best offer (the "Buyer");

WHEREAS, after substantial and extended negotiations with and due diligence by the Buyer the transaction was not able to be completed as the Buyer confirmed the challenges associated with continued operations of the facility in a responsible manner, including the magnitude of the capital expenditures needed and the market uncertainties. In particular, the foundry coke market, which in 2007 accounts for approximately fifty-five percent (55%) of the Department's coke sales through February, was considered too small to support both the estimated operating expenses and requisite capital investment of between approximately Forty-Two Million One Hundred Thousand Dollars ($42,100,000) and Seventy-Five Million Dollars ($75,000,000) necessary to continue Manufacturing Division operations, and therefore the Buyer determined that it would not proceed with the contemplated purchase, with such decision being communicated to the Department on or about March 6, 2007;

WHEREAS, the Department took additional action after receiving the notice from the Buyer to determine whether other potential parties to complete the contemplated acquisition existed and after consultation with and based on the advice of its investment banker concluded that there are no such potential buyers with the financial wherewithal and desire to purchase the Manufacturing Division;

WHEREAS, the Manufacturing Division sustained losses of Seventeen Million Four Hundred Fifty-One Thousand Dollars ($17,451,000) in fiscal year 2006 and has sustained losses of Eight Million Twenty-Five Thousand Dollars ($8,025,000) through February 28, 2007, in the current fiscal year. In addition, an immediate capital investment of at least Fifty-Two Million Five Hundred Twenty-Five Thousand Dollars ($52,525,000) would be required to continue operations in an efficient, safe and environmentally compliant manner with such investment being made without assurances of a sustainable blast furnace or foundry coke market going forward;

WHEREAS, the Department's 1986 bond indenture provides that the Board may dispose of the Manufacturing Division if the Manufacturing Division can no longer be maintained in an efficient manner and at a reasonable cost, the property comprising the Manufacturing Division is unserviceable, inadequate, uneconomic, obsolete, worn out, unfit, and/or unadapted for use in connection with the operation of the properties of the System, as that term is used in such

indenture, and if cessation of operations will not impair or destroy that ability to operate the remaining properties, as that term is used in the 1986 bond indenture, in an efficient manner such that the Department can achieve the rate convenant, as set forth therein, for the next three (3) years;

NOW THEREFORE BE IT RESOLVED THAT, the Board makes the findings and determinations set forth in the foregoing recitals and specifically finds that as required by the Department's 1986 bond indenture, the Board can no longer maintain the Manufacturing Division in an efficient manner and at a reasonable cost and that the property comprising the Manufacturing Division is unserviceable, inadequate, uneconomic, obsolete, worn out, unfit and/or unadapted for use in connection with the operation of the properties of the System, as that term is used in such indenture. Additionally, the Board finds that cessation of operations shall not impair or destroy the ability to operate the remaining properties, as that term is used in the 1986 bond indenture, in an efficient manner such that the Department can achieve the rate covenant, as set forth therein, for the next three (3) years;

RESOLVED FURTHER, that it is necessary and in the best interests of the beneficiaries of the Trust to proceed with the cessation of operations at the Manufacturing Division in an effort to minimize any further financial strain on and deterioration of the remaining assets of the Trust through continued operation of the Manufacturing Division;

RESOLVED FURTHER, that the Board has determined that unlike its other assets that are still needed and useful to fulfill its obligations under IND. Code § 8-1-11.1, et seq. and charitable purposes either through direct operations or financial contribution, operation of the Manufacturing Division is no longer needed or useful to fulfilling the purpose as a direct operational asset of the Trust, and instead is a financial strain on the other assets of the Trust;

RESOLVED FURTHER, that the Board has determined that the continued operation of the Manufacturing Division is both economically and practically infeasible and not in the best interests of the Trust and its beneficiaries;

RESOLVED FURTHER, that the Board shall, as soon as reasonably practicable, cease operations at its Manufacturing Division;

RESOLVED FURTHER, that management is hereby authorized and shall take any and all necessary steps to cause and complete the cessation of operations at the Manufacturing Division consistent with the intent hereof.

The undersigned officer of the Board of Directors for Utilities of the Department of Public Utilities of the City of Indianapolis d/b/a Citizens Gas & Coke Utility, a municipal corporation of the State of Indiana duly authorized to do business pursuant to Indiana Code 8-1-11.1, hereby certifies that the foregoing is a full, true and correct copy of the resolution adopted by the Board of Directors for Utilities on April 11, 2007.

IN WITNESS WHEREOF, I have hereunto set my hand this 24th day of April 2007.

John R. Whitaker
Assistant Secretary

ACKNOWLEDGMENT

Before me appeared John R. Whitaker, to me personally known, who being by me duly sworn did affirm that he is the Assistant Secretary of the Board of Directors for Utilities of the Department of Public Utilities of the City of Indianapolis d/b/a Citizens Gas & Coke Utility, a municipal corporation of the State of Indiana that has no corporate seal and that this certificate was made and executed by him for and on behalf of said Board by the authority vested in said Board pursuant to Indiana Code 8-1-11.1 as its free and voluntary act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal in Indianapolis, Indiana, this 24th day of April 2007.

Monica E. Kapp, Notary Public and
Resident of Marion County, State of Indiana

My Commission Expires:
December 17, 2007

BEFORE THE

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SUPPLEMENTAL DIRECT TESTIMONY AND EXHIBIT
of
WILLIAM A. TRACY

On
Behalf of
Petitioner

Citizens Thermal Energy

Petitioner's Exhibit WAT-S

INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is William A. Tracy. My business address is 2020 North Meridian Street, Indianapolis, Indiana 46202.

Q. ARE YOU ALSO SPONSORING PETITIONER'S EXHIBIT WAT IN THIS PROCEEDING?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL DIRECT TESTIMONY?

A. The purpose of my supplemental direct testimony is to update Petitioner's initial case-in-chief testimony for events that occurred after that testimony was filed on April 2, 2007. As Mr. Lykins explains in his supplemental direct testimony, on April 11, 2007, the Board authorized and directed closure of the manufacturing plant as soon as reasonably practicable. The manufacturing plant produces coke for sale in competitive markets and coke oven gas, which is sold to the Steam System and used as a fuel at the Perry K steam production plant. I will discuss the effects that closure of the manufacturing plant and the loss of coke oven gas as a fuel source to the Perry K plant will have on the Steam System's ongoing operations.

EFFECTS ON THE STEAM SYSTEM OF THE LOSS OF COKE OVEN GAS AS A FUEL SOURCE

Q. HOW WILL THE LOSS OF COKE OVEN GAS AS A FUEL SOURCE AFFECT THE STEAM SYSTEM'S USE OF OTHER FUELS AT THE PERRY K PLANT?

A. During fiscal year 2006 (the test year in this proceeding), approximately 29 percent of the steam generated at the Perry K plant was produced by boilers that are fueled by coke oven gas. Coal is the next least expensive fuel option relative to coke oven gas. The Perry K plant's three coal-fired boilers have the capacity to generate the steam that is currently produced by the boilers fueled with coke oven gas. As a result of the loss of coke oven gas as a fuel source, the Perry K plant's coal consumption will increase. Consequently, the amount of coal consumption reflected in Petitioner's initial case-in-chief testimony needs to be adjusted.

Q. PLEASE DESCRIBE THE ADJUSTMENT THAT NEEDS TO BE MADE TO THE COAL CONSUMPTION REFLECTED IN PETITIONER'S INITIAL CASE-IN-CHIEF TESTIMONY.

A. When we filed our initial case-in-chief testimony on April 2, 2007, we were hopeful that the manufacturing plant could be sold to a buyer that would continue to operate the plant and produce coke oven gas for sale to the Steam System. It was assumed, however, that the new manufacturing plant owner would make significant capital investments in the plant that, for a period of time, would cause it to produce substantially less coke oven gas than the Steam System has used in recent years. Accordingly, the fuel plan that was included in our initial case-in-

chief testimony reflected the decreased amount of coke oven gas we anticipated receiving from a potential buyer of the plant in the twelve months following the test year. For that reason, our initial case-in-chief testimony already included an adjustment to reflect increased consumption of coal of approximately 64,000 tons to make up for the decreased amount of coke oven gas that would be produced by the plant under new ownership.

Now that the Board has directed closure of the manufacturing plant, another adjustment needs to be made to reflect an incremental 22,000 tons of coal consumption based on a complete closure of the manufacturing plant, with no coke oven gas available for purchase by the Steam System. The combination of the adjustment included in the initial case-in-chief testimony and the adjustment made in this supplemental filing results in an increase to coal consumption of approximately 86,000 tons or 55 percent of the 156,704 tons of coal that the Steam System purchased during the test year.

Q. WILL THE LOSS OF COKE OVEN GAS AS A FUEL SOURCE HAVE OTHER EFFECTS ON THE STEAM SYSTEM'S OPERATIONS THAT WERE NOT REFLECTED IN PETITIONER'S INITIAL CASE-IN-CHIEF TESTIMONY?

A. Yes. Closure of the manufacturing plant and a complete loss of coke oven gas as a fuel source will cause the Steam System to incur additional ongoing operating expenses that were not reflected in our initial case-in-chief testimony.

Q. PLEASE EXPLAIN THE OTHER ONGOING OPERATING EXPENSES THAT WILL BE AFFECTED BY THE LOSS OF COKE OVEN GAS AS A FUEL SOURCE.

A. The increase in other ongoing operating expenses can be broken down into two categories: (1) expenses for additional full-time employees; and (2) expenses for additional parts and contract labor.

Petitioner will hire six additional full-time employees to perform activities that will be required as a result of the increased consumption of coal described above. Two coal and ash handlers will be needed to operate heavy equipment, coal conveyors and ash unloading equipment at the Perry K plant. Additionally, three new millwrights will be needed to perform additional maintenance on coal conveyors, car dumpers, ash systems, pulverizers, feeders, exhausters, combustion fans and stoker equipment that will be required as a result of the additional coal consumption. Finally, one instrument / electrical technician will be needed as a result of increased calibrations, cleaning and preventative maintenance associated with the electrical facilities and instruments that control coal handling equipment. The effects that the additional six employees described above will have on Petitioner's revenue requirement are detailed in the following Exhibit sponsored by Petitioner's witness Ms. LaTona S. Prentice: LSP-3S, page 1, column E, lines 15, and 16, and LSP-3S, page 2, column E, line 25.

The increased consumption of coal resulting from the closure of the manufacturing plant also will require the ongoing use of additional parts for coal

and ash handling facilities and the Perry K plant's coal-fired boilers. Additional contract labor also will be utilized to address a variety of issues related to the increased consumption of coal, including contractors to perform industrial vacuuming to ensure coal dust remains at acceptable levels and contractors to perform maintenance on heavy equipment. Petitioner's Exhibit WAT-1S sets forth our estimate of the amount of increased operation and maintenance expenses for certain identified ongoing parts and contract labor expenses. As the Exhibit shows, Petitioner's operation and maintenance expenses for parts and contract labor will increase by a total of $500,000 annually as a result of the manufacturing plant closing.

Q. EARLIER YOU EXPLAINED THAT YOU ASSUMED AN INCREASED CONSUMPTION OF COAL AS A RESULT OF DECREASED COKE OVEN GAS AVAILABILITY EVEN UNDER A SALE SCENARIO. WERE ANY ADJUSTMENTS FOR NEW EMPLOYEES AND ADDITIONAL PARTS AND CONTRACT LABOR EXPENSES INCLUDED IN THE INITIAL CASE-IN-CHIEF TESTIMONY TO REFLECT THAT INCREASED COAL CONSUMPTION?

A. No.

Q. WHY NOT?

No adjustments for new employees or additional parts and contract labor expenses were included in our initial case-in-chief testimony because, under a sale scenario, we assumed use of coke oven gas would return to historical levels after the new

manufacturing plant owner had completed its capital investments and the plant was once again operating at full capacity. Accordingly, under a sale scenario, we did not plan to hire new employees or expect to incur increased parts and contract labor expenses on an ongoing basis as a result of the temporarily decreased amounts of coke oven gas we anticipated receiving from the new manufacturing plant owner. In contrast, now that we know the plant is closing, it will be necessary to hire additional employees and incur the increased operation and maintenance expenses required to address the ongoing effects of increased coal consumption resulting from the loss of coke oven gas as a fuel source.

Q. WHAT OTHER EFFECTS WILL THE LOSS OF COKE OVEN GAS HAVE ON THE STEAM SYSTEM'S OPERATIONS?

A. With the loss of coke oven gas as a fuel source, the Perry K plant's fuel supply portfolio will become less diverse. Consequently, the availability of our coal-fired boilers and related equipment will have an even greater impact on our ability to provide reliable and low cost service. Unplanned outages of one of our coal-fired boilers or the unavailability of other equipment required to utilize coal will likely result in increased use of natural gas at the Perry K plant and increase the cost of supplying steam to our customers. Given the increased wear and tear the coal-fired boilers and related equipment will endure as a result of the loss of coke oven gas, the additional employees described above as well as the increased maintenance that will require the parts and contract labor I have discussed will be important to maintaining the reliability and low cost of the Steam System.

Q. WHEN WILL THE MANUFACTURING PLANT STOP SUPPLYING COKE OVEN GAS TO THE STEAM SYSTEM?

A. The manufacturing plant will be shut down over the next several months. By September 30, 2007, it will no longer be supplying coke oven gas to the Steam System.

Q. DID YOU PROVIDE THE RESULTS OF YOUR ANALYSIS OF THE INCREASES TO THE STEAM SYSTEM'S ONGOING EXPENSES RESULTING FROM THE LOSS OF COKE OVEN GAS AS A FUEL SOURCE TO PETITIONER'S WITNESS MS. LATONA PRENTICE?

A. Yes. Under my direction, the results of the analysis described above were provided to Ms. Prentice in order to enable her to make *pro forma* adjustments to Petitioner's revenue requirements that more accurately reflect the Steam System's ongoing operations without coke oven gas as a fuel source.

CONCLUSION

Q. DOES THAT CONCLUDE YOUR PREPARED SUPPLEMENTAL DIRECT TESTIMONY?

A. Yes, it does.

Citizens Thermal Energy
Additional Parts and Contract Labor Expense Resulting from Loss of Coke Oven Gas

Line No.	Description of Parts / Contract Labor	Estimated Cost
1	Coal Belt (one annually)	$20,000
2	Coal Belt Pulley (one annually)	$5,000
3	Car Dumper Cables, Contractor, Bearings	$10,000
4	Coal Chutes	$10,000
5	Bearings on seven coal belts	$5,000
6	Dozer Service by contractor	$10,000
7	Housekeeping Vacuum Machine (In house machine)	$5,000
8	15/16 Boilers Flight Conveyor	$10,000
9	No.10 Belt Tripper	$5,000
10	Various Gearboxes on coal belts	$15,000
11	Ash System Piping	$10,000
12	Ash System Swing Gates	$15,000
13	Ash System Bag Filters	$50,000
14	Ash Receivers	$30,000
15	Pugmill Ash Unloader scraper blades	$20,000
16	Coal Feeders	$50,000
17	Pulverizer Grinding Balls	$20,000
18	Pulverizer Gearbox	$40,000
19	Pulverizer Bull Gear	$20,000
20	Pulverizer Exhauster Blades/Spider	$30,000
21	Precipitator Electrical Wires, bushings, anti-sway bars	$30,000
22	Electrical Switchgear parts	$25,000
23	Vacuum Truck Contractor	$65,000
24	Total Additional Ongoing Annual Expense	$500,000

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SUPPLEMENTAL DIRECT TESTIMONY AND EXHIBITS
of
LATONA S. PRENTICE

On
Behalf of
Petitioner

Citizens Thermal Energy

Petitioner's Exhibit LSP-S

INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. LaTona S. Prentice. My business address is 2020 North Meridian Street, Indianapolis, Indiana 46202.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Board of Directors for Utilities of the Department of Public Utilities of the City of Indianapolis, d/b/a Citizens & Coke Utility and also Citizens Thermal Energy, ("Citizens" or "Utility"), as its Executive Director of Regulatory Affairs.

Q. HAVE YOU HELD ANY OTHER POSITIONS WITH CITIZENS GAS?

A. I began my employment with Citizens in 1984 as an Accountant. During my employment with Citizens, I also have held the positions of Budget & Rates Administrator, Budget & Operations Analyst, Rates and Operations Analyst, Rates Manager, Director of Budget & Rates, and Director of Regulatory Affairs.

Q. PLEASE DESCRIBE THE DUTIES AND RESPONSIBILITIES OF YOUR PRESENT POSITION.

A. I am responsible for the development, implementation, and administration of Citizens rates and charges and terms and conditions for gas and steam service. I prepare, or supervise the preparation of, accounting and financial adjustments, cost of service studies, and rate design testimony. Since 1986, I have been responsible for the

preparation of cost of service studies, rate design changes, annual FAC changes, quarterly GCA changes, and miscellaneous rate matters.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. I graduated from Ball State University in 1984 with a Bachelor of Science Degree in Accounting.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REVISED TESTIMONY?

A. My revised testimony describes the overall revenue requirements for Citizens' provision of steam service (including the underlying adjustments to the financial results for the test year ended September 30, 2006), including a discussion of a proposed phased-in rate increase. I made revisions to the testimony filed on April 2, 2007 to reflect changes to the revenue requirement as a result of the April 11, 2007 Board of Directors' decision to close the coke manufacturing plant. To avoid the confusion that can result when changes are made to prefiled testimony, I restated my testimony in its entirety and supplied information to the other parties showing what had changed from my original direct testimony filed on April 2, 2007.

FINANCIAL AND ACCOUNTING OVERVIEW

Q. PLEASE DESCRIBE EXHIBIT LSP-1S, PAGE 1.

A. Exhibit LSP-1S, page 1, is the Statement of Operating Income for the twelve months ended September 30, 2006 (the test year for this proceeding) and the pro forma revenue requirement for Citizens' steam operations. Column C shows Citizens' actual results of operations for the test year. Column D reallocates corporate support services ("CSS") dollars from other general & administrative costs (line 19) to related expense lines for cost of service study purposes. The total of Column D nets to zero, as it is simply a reallocation of expenses among the income statement lines. Column E is the total of Columns C and D, and line 27 represents the total operating expenses of the steam division, including its share of CSS expenses. Column F shows the pro forma adjustments made to reflect the going-level of steam operations at present rates in order to reflect fixed, known, and measurable changes which will occur within twelve months following the end of the test year. Column G shows the pro forma revenue requirements reflecting the adjustments shown in Column F. Column H shows the total of the pro forma adjustments required to produce Citizens' proposed revenue requirement and operating income shown in Column I. Accordingly, Column I shows the pro forma statement of operating income after adjusting for the proposed rate increase.

The final two columns – Columns J and K – indicate the pro forma adjustments to reflect the December 1, 2008 effective date and impact of the Steam Purchase Agreement ("Covanta Agreement") entered into between Citizens and

Covanta Indianapolis, Inc. ("Covanta") and approved by the Commission's December 28, 2006 Order in Cause No. 43025, which will be further discussed later in my testimony. These two columns will form the basis of the second phase of the proposed revenue requirement increase and resulting operating income.

Q. WHAT WAS THE ACTUAL STEAM DIVISION OPERATING INCOME FOR THE TEST YEAR?

A. The actual operating income for the twelve months ended September 30, 2006, as shown on Column C, line 28, of Exhibit LSP-1S, page 2 was $2,135,340.

Q. IN YOUR OPINION, DOES COLUMN G OF EXHIBIT LSP-1S, PAGES 1 AND 2, ACCURATELY REFLECT CITIZENS' STEAM OPERATIONS AND REVENUE REQUIREMENT DURING THE TEST YEAR, ADJUSTED FOR FIXED, KNOWN, AND MEASURABLE CHANGES WHICH WILL OCCUR WITHIN TWELVE MONTHS FOLLOWING THE END OF THE TEST YEAR?

A. Yes.

Q. ARE COLUMNS F AND G OF EXHIBIT LSP-1S, PAGES 1 AND 2, USED ELSEWHERE IN THE UTILITY'S CASE-IN-CHIEF?

A. Yes. Columns F and G of Exhibit LSP-1S, pages 1 and 2, summarize the phase one overall revenue requirement of the Utility and the adjustments used to arrive at the pro forma revenue requirement. Petitioner's witness Kerry Heid used information

from Exhibit LSP-1S, pages 1 and 2, to prepare the Utility's cost of service study and rate design.

Q. PLEASE SUMMARIZE THE PRO FORMA REVENUE REQUIREMENT.

A. I have tried to keep the adjustments simple and direct, and to avoid smaller, less important adjustments to Citizens' steam revenue requirements to help reduce the complexity of the case. The pro forma revenue requirement totals $61,797,390 and indicates that Citizens requires an increase in base rate revenues of $7,657,422 in order to provide it with an opportunity to earn a net operating income of $6,521,688. The net operating income from the proposed rates must be sufficient to meet the Utility's annual debt service obligations, any working capital needs, and to fund extensions and replacements in excess of depreciation. Exhibit LSP-1S, page 3, shows in a chart the Utility's pro forma revenue requirement by cost category.

The phase two revenue requirement of $64,860,060 reflects a $3,062,670 base rate increase beginning December 1, 2008 to recover the increased costs from the recently approved Covanta Agreement when it becomes effective. The phase two increase will allow Citizens to continue to produce a net operating income of $6,521,688 sufficient to recover Citizens' debt service, any working capital, and extensions & replacements in excess of depreciation.

Q. PLEASE DESCRIBE EXHIBIT LSP-1S, PAGES 4 AND 5.

A. I prepared Exhibit LSP-1S, pages 4 and 5, to summarize the overall revenue requirement of the Utility and the detailed adjustments used to arrive at the pro forma revenue requirement. Petitioner's witness Kerry Heid also used information from this exhibit to prepare the Utility's cost of service study and rate design. Each adjustment is accompanied by a reference to the exhibit containing the detailed adjustment to test year revenue or expense.

DETAILED DESCRIPTION OF PRO FORMA ADJUSTMENTS

Q. PLEASE DESCRIBE EXHIBIT LSP-1S, PAGES 6 THROUGH 8.

A. Exhibit LSP-1S, pages 6 through 8, set forth the pro forma adjustments to Citizens' test year gross margin and represent a net increase in test year margin of $866,872 (see Exhibit LSP-1S, page 1, line 6, column F).

Operating Revenue and Fuel Cost:

Q. PLEASE DESCRIBE EXHIBIT LSP-1S, PAGE 6.

A. Exhibit LSP-1S, page 6, shows the pro forma margin to be derived from steam sales based upon normal weather. Normal weather was determined by reference to the 30-year normal heating degree days and cooling degree days as published by NOAA. The test year heating degree days were 9.5% warmer than normal, while the test year cooling degree days were 2% warmer than normal; therefore, the net margin

increases. The impact of this adjustment, revenue less cost of fuel, is an increase in test year margin of $666,259, as shown on line 7 of page 6 of Exhibit LSP-1S.

Q. PLEASE DESCRIBE EXHIBIT LSP-1S, PAGE 7.

A. Exhibit LSP-1S, page 7, represents an adjustment needed to reflect the change from the test year number of customers to the pro forma number of customers and their associated usage. The pro forma number of customers identifies customers whose service was disconnected or added during the test year and adjusts the number of customers to remove from or add to the test year monthly customer numbers by class during the months that had not reflected those removals or additions. In addition, we added customers to the extent we know they will be connected during the 12 months following the end of the test year. Lastly, the methodology for reporting customer numbers changed during the 12 months following the end of the test year. During the test year, the number of customers was defined as the number of active services on the system. Some services are served by more than one meter. Subsequent to the test year, and in the pro forma calculations, the number of customers is defined by the number of active meter points. The change in customer number reporting methodology was the result of Citizens migration to a new billing system effective October 1, 2006. The new billing system defines customers as an active meter point. The net change in customers/meters by class is found in Exhibit LSP-1S, page 7, line 9. It appears the total number of customers increased dramatically from the test year

to pro forma; however, the Rate 1 increase primarily is caused by the change in customer number reporting methodology. Petitioner's witness Kerry Heid will utilize the new pro forma customer/meter numbers in his determination of the Utility's rate design. The test year margin is increased by $217,435 to reflect the increased number of customers.

Q. WHAT IS THE PURPOSE OF EXHIBIT LSP-1S, PAGE 8?

A. The purpose of Exhibit LSP-1S, page 8, is to remove the change in unbilled revenue less fuel cost recorded in the test year of ($18,593), as the pro forma revenue and cost of fuel reflect a billed basis rather than an unbilled basis. In addition, Exhibit LSP-1S, page 8, identifies test year miscellaneous billing adjustments for removal from the test year margin, an increase of $24,903, and the impact of the changes in the average customer charge and fuel price from test year to pro forma, a margin decrease of $15,225. Consistent with the following adjustment, the test year fuel cost associated with electric revenues has been removed as well, amounting to a reduction of $5,198.

Q. WHAT IS THE PURPOSE OF EXHIBIT LSP-1S, PAGE 9?

A. The purpose of Exhibit LSP-1S, page 9, is to remove the electric revenues of $6,538 from the test year pro forma revenue. As Petitioner's witness Jamie Dillard explains in his testimony, Citizens does not anticipate generating electric revenues on a pro forma basis.

Q. PLEASE DESCRIBE PETITIONER'S EXHIBIT LSP-1, PAGE 10.

A. Exhibit LSP-1S, page 10, reflects various pro forma adjustments to non-fuel related cost of goods sold. Electric utility expense shows an increase of $105,766 to reflect a full year's impact of the higher demand ratchet applicable to Citizens' electricity usage.

Pursuant to the City Ordinance that establishes the sewer user charge, the test year sewer expense is adjusted to reflect an increase of $38,671 to reflect a 29% phase I increase effective January 1, 2006, followed by a 22% phase II increase effective January 1, 2007, as shown on line 3 of page 10 of Exhibit LSP-1S. Phase III of the sewer user charge rate increase will become effective January 1, 2008; however, that increase has not been factored into the pro forma adjustment, because it will occur more than twelve months after the end of the test year in this rate case.

As explained in the testimony of Petitioner's witness Bill Tracy, Citizens has instituted a polymer program which will increase test year chemical costs by $114,201, as shown on line 4 of page 10 of Exhibit LSP-1S.

<u>Operations & Maintenance:</u>

Q. WHAT IS THE PURPOSE OF PETITIONER'S EXHIBIT LSP-1S, PAGE 11?

A. Exhibit LSP-1S, page 11, is a computation of pro forma operations and maintenance expenses. Line 2 of the Exhibit reflects a $39,000 adjustment to environmental expense for a 25% increase in the Indiana Department of Environmental

Management's air permit fees and an increase in the fee paid to the United States Geological Survey (through the Ohio River Sanitation Commission) for maintenance of gauging systems on the White River used to determine compliance with the wastewater discharge permit. In his testimony, Mr. Dillard discusses a pump rebuilding project to institute a seven-year rebuilding rotation. An adjustment of $65,339 to operations and maintenance expense is shown on line 3 to reflect the pump parts associated with this project. Another $29,166 was included to provide for the plant electrical system upgrade expense described by Mr. Dillard in his testimony. In addition, contracted services expenses are adjusted by $217,632 for the increase in contracted labor associated with the electrical system upgrade program.

Mr. Dillard also describes an adjustment for real estate rental license expenses of $61,905 to reflect the expenses associated with renting facilities from the gas division to house the steam division's operating crews and equipment. The license was effective October 1, 2006. Prior to being located at the gas division's operations facility, the steam distribution operations worked from the steam facility.

As a result of pro forma increases in the amount of coal used as fuel compared to the test year, and pursuant to notification from our contractor that Citizens' sludge and ash removal price will increase 5% in 2007, sludge and ash removal costs were increased $239,277. In addition, as Mr. Tracy described in his

supplemental testimony, coal handling parts and contracted services were increased $500,000 as a result of the increased consumption of coal.

General & Administrative:

Q. MR. BREHM'S TESTIMONY INDICATES THAT THE AMOUNTS ON PETITIONER'S EXHIBIT JRB-8 SERVE AS INPUTS TO YOUR PRO FORMA ADJUSTMENTS. PLEASE EXPLAIN.

A. Exhibit LSP-1S, page 1, column C, line 19, is the amount of test year CSS cost allocated to the steam division. Where applicable, a weighted steam division allocation percentage was applied to CSS costs in the calculation of the pro forma adjustments described throughout the remainder of my testimony. As reflected in Petitioner's Exhibit JRB-8, column A, line 6, approximately 6.4% of the CSS labor-related costs were allocated to the steam division. Certain pro forma costs were directly assigned to the steam division, where a distinct allocation was more appropriate. On Exhibit LSP-1S, page 1, column C, I used actual test year allocations to redistribute test year CSS costs to related expense lines of the revenue requirements in the test year for cost of service study purposes.

Due to the disposition of the Manufacturing Division described in the respective testimony of Mr. Lykins and Mr. Brehm, any pro forma adjustments to CSS allocations were allocated to the steam division according to Mr. Brehm's CSS allocation factor after adjusting for the disposition of the manufacturing division.

The pro forma allocation factor of 7.5% is provided in Petitioner's Exhibit JRB-8, column A, line 3, and was utilized to allocate pro forma CSS costs to the steam division.

Certain CSS costs have been re-allocated in the revenue requirements from corporate support expense to related expense lines for cost of service study purposes. For example, employee benefits expenses are incurred in both the steam division and CSS. In order to properly allocate these costs among the customer classes in the cost of service study, CSS employee benefits costs allocated to steam operations were added to the steam division employee benefits costs to more efficiently allocate those costs in the cost of service study. A total of $1,032,208 was reallocated from CSS costs among the income statement line items, as reflected in Exhibit LSP-1S, pages 1 and 2, column D.

Q. HAVE YOU PROVIDED A PRO FORMA ADJUSTMENT FOR INCREASED PAYROLL EXPENSES?

A. Yes, I have. Exhibit LSP-1S, page 12, depicts the increase in pro forma payroll expenses. The increase in payroll was determined using the current level of employees plus 6 additional employees who will be hired to handle the additional coal and ash from the loss of coke oven gas as a source of fuel, and annualized pay rates that will go into effect prior to September 30, 2007. The overall pay rate adjustment amounts to a 17.9% increase, which annualizes the May 2006 pay

increase, reflects a May 2007 pay raise, 7 recently-added positions, and 6 added positions resulting from the closing of the Manufacturing Division. The annualization of regular payroll results in an expense of $6,476,682. To this expense, I have added overtime and supplemental pay. Further, in order to arrive at the amount of payroll to be expensed (as opposed to capitalized), I have deducted the amount of pro forma payroll associated with capital projects. This pro forma amount of $115,232 is a capital cost which has been included as part of the extensions and replacements revenue requirement. Overall, payroll expense has been increased by $1,194,043.

Q. PLEASE DESCRIBE THE PRO FORMA ADJUSTMENT SHOWN ON PETITIONER'S EXHIBIT LSP-1S, PAGE 13.

A. Exhibit LSP-1S, page 13 shows the increase in employee benefits expense. Certain adjustments are related to the increase in payroll expense. The employee benefits expenses that will increase with base payroll are $78,543 higher than the test year. Non-payroll related employee benefits have been adjusted to reflect a net increase of $290,830, as shown on line 11 of page 13. In total, employee benefits were increased by $369,373.

Q. WHAT EMPLOYEE BENEFIT EXPENSES ARE NOT DIRECTLY RELATED TO THE LEVEL OF PAYROLL?

A. Pension, employee health and life insurance and post retirement benefits fit that description. The pension adjustment reflects the pro forma cash pension contribution as proposed by the Utility's actuary, McCready and Keene, Inc. The test year pension expense was $618,235, and reflects the accrual accounting for two separate pension plans, bargaining and non-bargaining. Effective January 1, 2007, the two pension plans were combined. The annual review and evaluation of the Utility's pension plan for appropriate funding conducted by McCready and Keene, Inc. indicated a cash deficiency in its combined pension plan, and as a result, McCready and Keene, Inc. has recommended a total cash pension funding of the pension plan during the twelve months following the test year in the amount of $488,365, which decreases the test year expense by $129,870. The pro forma adjustment to employee health and life insurance expense is based upon the 2007 budget. Between fiscal years 2003 and 2005, actual CSS health care insurance increased from $2,165,122 to $2,637,961, which is an approximate 22% increase over two years, or an average of 11% per year. Additional information provided in a September 2005 report issued by Mercer Human Resource Consulting, LLC indicated employers should expect an average increase of nearly 10%. After increasing the test year health and life insurance of $837,113 by 10%, plus adding the $388,352 the steam division was already over-budget at January 31, 2007, the resulting projected cost was even larger than the 2007 budget. Therefore, we elected to conservatively rely upon the 2007 budgeted health

and life insurance costs plus the $388,352 variance previously described for our pro forma cost. The pro forma adjustment increased test year employee insurance expense $416,485. In each of the last five years, employee health care expenses have steadily increased. In addition, pro forma post retirement benefits expense is $3,281 greater than the test year, as prepared by the Utility's actuary McCready and Keene, Inc., and other benefits are $934 greater than the test year.

Q. WHY DOES CITIZENS REFLECT THE CASH FUNDING OF THE PENSION PLAN IN THE REVENUE REQUIREMENTS, RATHER THAN AS AN ACCRUAL EXPENSE?

A. The statute governing municipal utility ratemaking (IC 8-1.5-3-8) uses a cash revenue requirements methodology for ratemaking purposes. In many instances, the accrual method and the cash method of determining a revenue requirement item result in a similar number. In some cases, however, the difference between the two accounting methodologies is significant. The pension revenue requirement is an example of one of those differences

Q. WHAT ADJUSTMENTS WERE MADE TO OTHER GENERAL AND ADMINISTRATIVE EXPENSES AS SHOWN ON EXHIBIT LSP-1S, PAGE 14?

A. Two adjustments were made to test year regulatory costs. The first adjustment of $31,200 is to reflect higher ongoing regulatory expenses as a result of a change in the

computation of OUCC and Commission fees for municipal utilities, and to reflect an increase in the number of FAC filings each year from one to four. Petitioner's witness Craig Jones will address the frequency of FAC filings in his testimony. In addition, $147,523 has been added to reflect a three-year amortization of costs associated with this case.

Pro forma insurance costs are $65,264 lower than the test year in recognition of reduced insurance premiums. As described in the testimony of Mr. Brehm, the disposition of the manufacturing division increases test year general & administrative expenses by $47,820 to reflect the steam system's allocation of the net change in non-payroll related CSS costs, as shown on line 6 of page 14 of Exhibit LSP-1S. The last pro forma general & administrative expense adjustment is an increase of $1,800 to correct a test year booking error, which is set forth on line 5 of page 14.

Depreciation:

Q. PLEASE DESCRIBE EXHIBIT LSP-1S, PAGE 15.

A. The pro forma level of depreciation expense shown on Exhibit LSP-1S, page 15, line 4 is based on the utility plant in service at September 30, 2006, adjusted for items to be closed to plant during the following twelve months and the applicable 5.46 % composite depreciation rate currently in effect and in effect since January 1, 2006. The pro forma increase in depreciation expense is $701,380, a portion of which is to annualize the depreciation rate that became effective January 1, 2006.

Petitioner's witness Donald J.Clayton performed a depreciation study prior to the end of the test year in this rate case, which is discussed in his testimony and identified as Petitioner's Exhibit DJC-1.

Taxes:

Q. HAVE YOU MADE A COMPUTATION REGARDING PRO FORMA PAYROLL TAXES?

A. Yes. This calculation is shown on Petitioner's Exhibit LSP-1S, page 16. I applied the payroll tax rates to the Utility's pro forma taxable payroll subject to the tax to arrive at a pro forma increase to payroll tax expense of $130,035, as shown on line 11.

Q. PLEASE DESCRIBE THE ADJUSTMENT MADE TO PROPERTY TAX EXPENSE.

A. In Exhibit LSP-1S, page 17, I reduced the test year property tax expense by $27,231 to reflect the actual amount of property taxes paid in May and November 2006. The test year expense per books reflected the accrual of property tax for the year.

Q. PLEASE DESCRIBE PETITIONER'S EXHIBIT LSP-1S, PAGE 18.

A. Exhibit LSP-1S, page 18, describes the pro forma increase in Indiana Utility Receipts Tax ("IURT") expense. The pro forma operating revenue at current rates is multiplied by the 1.4% utility receipts tax rate. Line 4 reflects this increase in revenue, which translates into a $89,107 increase in IURT expense at present rates. In

addition, Exhibit LSP-1S, page 18, lines 5 through 7, reflect the computation of the increase in IURT caused by the pro forma increase in operating revenue, as described below.

Other Requirements:

Q. EXHIBIT LSP-1S, PAGE 5, REFLECTS AN ANNUAL REVENUE REQUIREMENT FOR DEBT SERVICE. DO YOU SPONSOR AN EXHIBIT FOR DEBT SERVICE?

A. No. The total annual revenue requirement for debt service of $5,118,068 is set forth on Petitioner's Exhibits MDS-1, and MDS-2, which are attached to the testimony of Michael D. Strohl.

Q. EXHIBIT LSP-1S, PAGE 5, ALSO REFLECTS A REVENUE REQUIREMENT FOR EXTENSIONS & REPLACEMENTS. WHERE IN THE UTILITY'S CASE-IN-CHIEF IS THAT REVENUE REQUIREMENT DESCRIBED?

A. The proposed annual revenue requirement of $3,846,597 for extensions & replacements and a description of the basis for the proposed extensions & replacements revenue requirement are set forth in the testimony and exhibits of Citizens' witness Jamie Dillard.

PROPOSED INCREASE IN OPERATING REVENUE

Q. WHAT IS THE AMOUNT OF THE PROPOSED INCREASE TO CITIZENS'

OPERATING REVENUE FOR STEAM SERVICE?

A. Exhibit LSP-1S, page 2, column G, line 34, shows the calculation of the proposed revenue increase, prior to IURT, which is necessary for Citizens to recover its pro forma revenue requirement. The increased revenue requirement is calculated by determining the pro forma revenue requirement at present rates (column G, line 33), less the pro forma operating revenues at present rates (column G, line 4) to determine the pro forma increase in operating income. The increase in operating income is then grossed up for the Indiana Utility Receipts Tax. The total proposed increase in revenue requirements is $7,657,422.

Q. HOW IS THE ADDITIONAL IURT EXPENSE RESULTING FROM THE PROPOSED INCREASE IN OPERATING INCOME DETERMINED?

A. Exhibit LSP-1S, page 18, line 7, shows the computation of the additional IURT expense that will result from Citizens' request to increase its revenues to recover its pro forma revenue requirement by increasing the operating income by the 1.4% IURT rate. The effect of that increase would result in an increase to IURT of $107,204.

Q. PLEASE DESCRIBE PETITIONER'S EXHIBIT LSP-1, PAGE 19.

A. Exhibit LSP-1S, page 19 reflects the adjustments necessary to recognize the requirements of the Commission's December 28, 2006 Order in Cause No. 43025, which determined that two components of the Covanta Agreement (the demand charge and O&M charge) were not fuel costs, and instead should be recovered in

Citizens' base rates. Operations & maintenance is increased $2,630,256 to recognize the two components of the Covanta Agreement in base rates. In addition, fuel costs are increased $389,537 to reflect the updated fuel cost rates as provided for in the Covanta Agreement and authorized by the Commission to be recovered as fuel costs, and the IURT will increase $42,877 by applying the 1.4% IURT rate to the increased revenue requirement.

Q. PLEASE EXPLAIN THE COVANTA AGREEMENT ADJUSTMENT.

A. On December 28, 2006, the Commission issued an Order in Cause No. 43025, a copy of which is attached to my testimony as Petitioner's Exhibit LSP-2S. That Order recognized "that the retail steam Jurisdictional portion of the Base Steam Payment, Summer Steam Payment and Incremental Chemical Costs as described in Article V of the [Covanta] Agreement are eligible for recovery through Citizens FAC Rider" (page 24). The Commission further found "the remaining charges of the [Covanta] Agreement are not eligible for recovery through this [FAC] mechanism" (page 25). The remaining charges are the Demand Charge and the O&M Charge, and the $2,630,256 increase is reflective of those charges. The Commission found the Covanta Agreement to be just and economically reasonable to Citizens' retail steam ratepayers, and further noted on page 25 of its Order that

> Citizens agreed in a settlement agreement approved in Cause No. 41969-FAC03-S1 (January 23, 2004) to file a base rate case no later than January 1, 2007. <u>The anticipated base rate case filing and timing</u>

> of the implementation of the [Covanta] Agreement provides an opportunity for Citizens to update its base rates to include costs which are found to be known and measurable. (Emphasis added).

These costs are, and were found by the Commission to be, known and measurable today, and will become effective December 1, 2008. As a result, these costs should be included in Citizens' pro forma revenue requirements, effective December 1, 2008. Citizens' phase two rates would be based upon the increased revenue requirement summarized in Exhibit LSP-1S, pages 1 and 2, column K.

Q. PLEASE SUMMARIZE THE REVISIONS TO CITIZENS' REVENUE REQUIREMENTS THAT WERE NECESSARY AS A RESULT OF THE BOARD'S DECISION TO CLOSE THE MANUFACTURING DIVISION.

A. Exhibit LSP-3S summarizes the revisions to the revenue requirements that were necessary as a result of the Board's decision to close the Manufacturing Division. Line 4, Fuel Cost was increased $305,700 to replace 480,000 Dth of coke oven gas with the equivalent 21,622 tons of coal. Coal is slightly more expensive than coke oven gas. The increase in fuel cost is matched in the Steam Revenue, line 1, resulting in no impact upon Citizens' gross margin or revenue requirements. In addition, Plant Maintenance on line 11 was increased $500,000 to recognize the increased maintenance, parts, and contractor expense required to maintain the coal-related equipment as a result of the ongoing increased use of coal in the fuel mix.

Line 15 (Administrative & General) and line 17 (Employee Benefits), were

increased $352,043 and $5,757 respectively, to reflect an additional 6 employees' salaries and benefits. Similarly, Payroll & Miscellaneous Taxes on line 25 was increased $28,707 as well.

Lines 25 and 29 were increased $4,280 and $12,648, respectively, for the Indiana Utility Receipts Tax related to the increased revenue requirements. The net impact of the adjustments made necessary by the closure of the Manufacturing Division increased Citizens' revenue requirements by $903,435.

Q. IN SUMMARY, DO YOU HAVE AN OPINION AS TO THE NECESSITY OF THE PRO FORMA ADJUSTMENTS MADE IN PETITIONER'S EXHIBIT LSP-1 AND TO THE RESULTING AGGREGATE ANNUAL REVENUE REQUIREMENT FOR CITIZENS?

A. Yes, I do. In my opinion, each of the pro forma adjustments to test year data is necessary in order to properly reflect the appropriate pro forma revenue requirement for the provision of steam service. Citizens is not currently recovering its statutory revenue requirements and reasonably requires a phase one annual increase of $7,657,422 in its base rates in order to produce a net operating income of $6,521,688.

Effective December 1, 2008, phase two rates should be implemented to produce an additional $3,062,670 in base rate revenues to permit Citizens to recover the Covanta Demand Charge and O&M Charge consistent with the Commission's December 28, 2006 Order. The phase two increase will continue to produce a net

operating income of $6,521,688 sufficient to recover Citizens' debt service, any working capital, and extensions & replacements in excess of depreciation.

Q. MS. PRENTICE, DOES THAT CONCLUDE YOUR DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes, it does.

VERIFICATION

STATE OF INDIANA)
) ss:
COUNTY OF MARION)

The undersigned, LaTona S. Prentice, under penalties of perjury and being first duly sworn on her oath, says that she is the Executive Director of Regulatory Affairs of Citizens Thermal Energy; that she caused to be prepared and read the foregoing Revised Direct Testimony; and that the representations set forth therein are true and correct to the best of her knowledge, information and belief.

LaTona S. Prentice

By: LaTona S. Prentice
Executive Director of Regulatory Affairs
Citizens Thermal Energy

Subscribed and sworn to before me, a Notary Public, this 25th day of April, 2007.

Ann Dunavent

Signature

Ann Dunavent

Printed Name

My Commission Expires: 08/11/08

My County of Residence: Hancock

CITIZENS THERMAL ENERGY
Index of Exhibit LSP-1

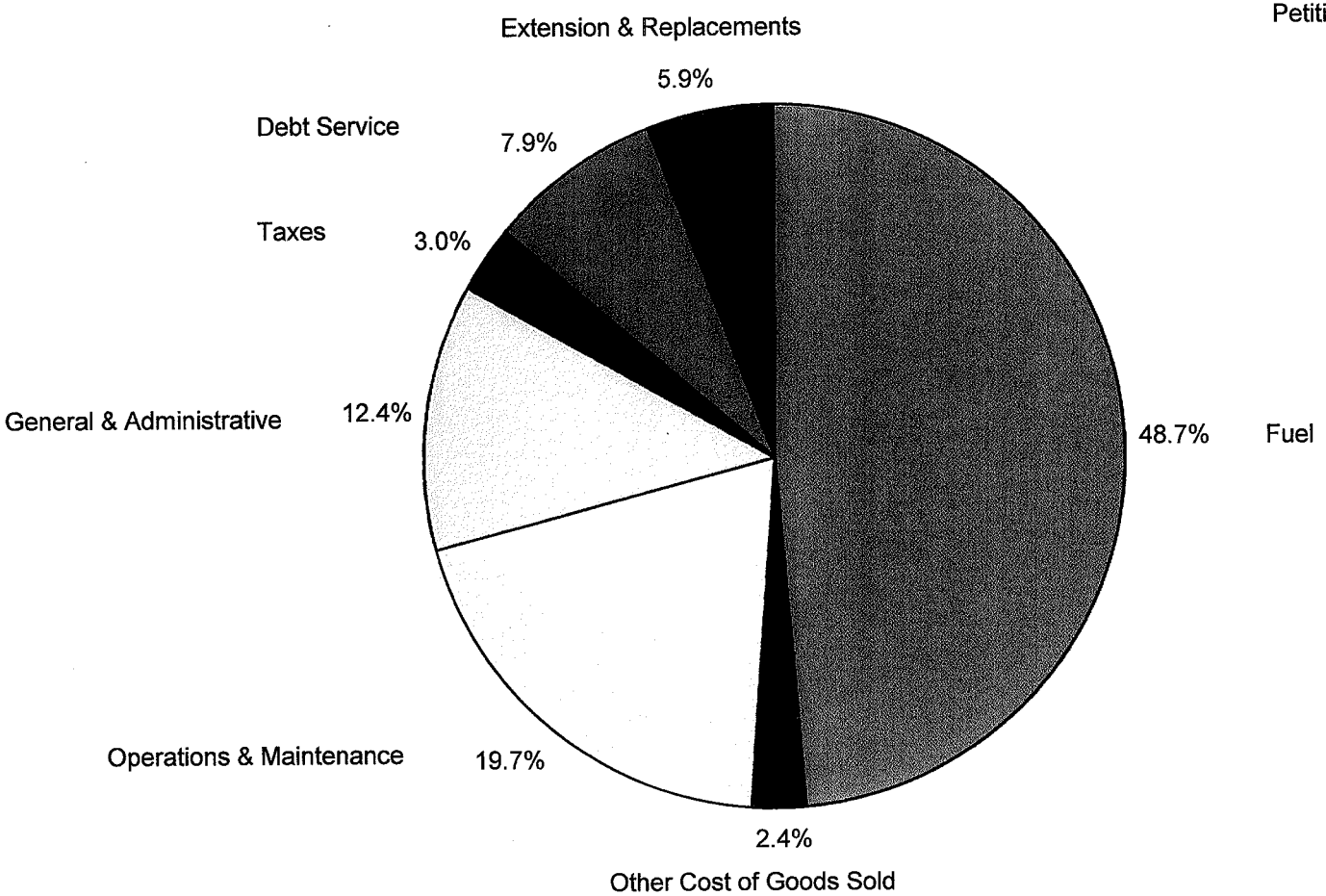
CITIZENS THERMAL ENERGY
Test Year Statement of Income and Pro Forma Revenue Requirement
for the Twelve Months Ended September, 2006

A	B	C	D	E	F	G	H	I	J	K
Line No.	Revenue Requirement Description	Test Year Income Statement	Steam Related CSS	Total Steam	Pro forma Adjustments	Pro forma Results at Current Rates	Pro forma Adjustments	Pro forma Results based on Proposed Rates	12/1/2008 Pro Forma Adjustments	12/1/2008 Pro Forma Results based on Proposed Rates
	Steam Operations Division									
1	Sales - Dekatherms	7,183,930	-	7,183,930	228,130	7,412,060	-	7,412,060	-	7,412,060
		7,183,930		7,183,930	228,130	7,412,060	-	7,412,060	-	7,412,060
	Operating Revenues									
2	Steam Revenue	$ 49,746,392	$ -	$ 49,746,392	$ 4,393,576	$ 54,139,968	$ 7,657,422	$ 61,797,390	$ 3,062,670	$ 64,860,060
3	Other Revenue	6,538	-	6,538	(6,538)	-	-	-	-	-
4	Total Operating Revenues	$ 49,752,930	$ -	$ 49,752,930	$ 4,387,038	$ 54,139,968	$ 7,657,422	$ 61,797,390	$ 3,062,670	$ 64,860,060
	Operating Expense									
5	Fuel Cost	$ 27,672,554	$ -	$ 27,672,554	$ 3,520,166	$ 31,192,720	$ -	$ 31,192,720	$ 389,537	$ 31,582,257
6	Gross Margin	$ 22,080,376	$ -	$ 22,080,376	$ 866,872	$ 22,947,248	$ 7,657,422	$ 30,604,670	$ 2,673,133	$ 33,277,803
	Other Cost of Goods Sold									
7	Electric	$ 697,064	$ -	$ 697,064	$ 105,766	$ 802,830	$ -	$ 802,830	$ -	$ 802,830
8	Water & Sewer	178,255	-	178,255	38,671	216,926	-	216,926	-	216,926
9	Chemicals	420,874	-	420,874	114,201	535,075	-	535,075	-	535,075
10	Total Other Cost of Goods Sold	$ 1,296,193	$ -	$ 1,296,193	$ 258,638	$ 1,554,831	$ -	$ 1,554,831	$ -	$ 1,554,831
	Operations & Maintenance									
11	Plant Operations	$ 2,565,035	$ -	$ 2,565,035	$ -	$ 2,565,035	$ -	$ 2,565,035	$ -	$ 2,565,035
12	Plant Maintenance	3,575,981	-	3,575,981	1,152,319	4,728,300	-	4,728,300	2,630,256	7,358,556
13	Distribution Maintenance	2,533,396	-	2,533,396	-	2,533,396	-	2,533,396	-	2,533,396
14	Customer Operations/Metering Maintenance	323,818	-	323,818	-	323,818	-	323,818	-	323,818
15	Total Operations & Maint	$ 8,998,230	$ -	$ 8,998,230	$ 1,152,319	$ 10,150,549	$ -	$ 10,150,549	$ 2,630,256	$ 12,780,805
	General & Administrative									
16	Administrative & General	$ 1,184,994	$ 475,600	$ 1,660,594	$ 1,194,043	$ 2,854,637	$ -	$ 2,854,637	$ -	$ 2,854,637
17	Outside Services	271,622	-	271,622	-	271,622	-	271,622	-	271,622
18	Employee Benefits	1,893,235	422,336	2,315,571	369,373	2,684,944	-	2,684,944	-	2,684,944
19	Corporate Support	2,690,604	(1,032,208)	1,658,396	-	1,658,396	-	1,658,396	-	1,658,396
20	Other Administrative & General	406,310	-	406,310	163,078	569,388	-	569,388	-	569,388
21	Total General & Admin	$ 6,446,765	$ (134,272)	$ 6,312,493	$ 1,726,494	$ 8,038,987	$ -	$ 8,038,987	$ -	$ 8,038,987

CITIZENS THERMAL ENERGY
Test Year Statement of Income and Pro Forma Revenue Requirement
for the Twelve Months Ended September, 2006

A	B	C	D	E	F	G	H	I	J	K
Line No.	Revenue Requirement Description	Test Year Income Statement	Steam Related CSS	Total Steam	Pro forma Adjustments	Pro forma Results at Current Rates	Pro forma Adjustments	Pro forma Results based on Proposed Rates	12/1/2008 Pro Forma Adjustments	12/1/2008 Pro Forma Results based on Proposed Rates
	Depreciation & Amortization									
22	Depreciation	$ 1,502,222	$ 52,223	$ 1,554,445	$ 701,380	$ 2,255,825	$ -	$ 2,255,825	$ -	$ 2,255,825
23	Amortization	187,152	-	187,152	-	187,152	-	187,152	-	187,152
23	Total Depreciation & Amortization	$ 1,689,374	$ 52,223	$ 1,741,597	$ 701,380	$ 2,442,977	$ -	$ 2,442,977	$ -	$ 2,442,977
	Taxes									
24	Property Tax	$ 438,831	$ 10,279	$ 449,110	$ (27,231)	$ 421,879	$ -	$ 421,879	$ -	$ 421,879
25	Payroll & Miscellaneous	406,790	71,770	478,560	130,035	608,595	-	608,595	-	608,595
26	Indiana Utility Receipts Tax	668,853	-	668,853	89,107	757,960	107,204	865,164	42,877	908,041
26	Total Taxes	$ 1,514,474	$ 82,049	$ 1,596,523	$ 191,911	$ 1,788,434	$ 107,204	$ 1,895,638	$ 42,877	$ 1,938,515
27	**Total Operating Expenses**	$ 47,617,590	$ -	$ 47,617,590	$ 7,550,908	$ 55,168,498	$ 107,204	$ 55,275,702	$ 3,062,670	$ 58,338,372
28	**Operating Income**	$ 2,135,340	$ -	$ 2,135,340	$ -	$ (1,028,530)	$ 7,550,218	$ 6,521,688		$ 6,521,688
	Other Fund Requirements									
29	Debt Service					$ 5,118,068	$ -	$ 5,118,068	$ -	$ 5,118,068
30	Working Capital									
31	Extension & Replacements					3,846,597	-	3,846,597	-	3,846,597
	Cash Requirement Offset									
32	Depreciation					(2,442,977)	-	(2,442,977)	-	(2,442,977)
33	**Total Revenue Requirement**					$ 61,690,186	$ 107,204	$ 61,797,390	$ 3,062,670	$ 64,860,060
34	**Revenue Requirement Deficit**					$ (7,550,218)	$ 7,550,218	$ 0	$ 0	$ 0

CITIZENS THERMAL ENERGY
PRO FORMA REVENUE REQUIREMENTS



CITIZENS THERMAL ENERGY
Summary of Pro Forma Revenue Requirement

Line No.		Pro forma Results based on Proposed Rates	12/1/2008 Pro Forma Adjustments	12/1/2008 Pro Forma Results based on Proposed Rates	Reference
	Operating Revenues				
1	Test year revenues	$ 49,752,930			page 1
2	Pro forma increase to operating revenues for weather	1,500,807			page 6
3	Pro forma increase to operating revenues for customers	317,542			page 7
4	Pro forma decrease to operating revenues for unbilled	(33,788)			page 8
5	Pro forma decrease to operating revenues for test year adjustments	(76,181)			page 8
6	Pro forma decrease to operating revenues for change in average customer charge	(15,225)			page 8
7	Pro forma increase to operating revenues for change in fuel price	2,700,421			page 8
8	Pro forma decrease to operating revenues for miscellaneous revenue	(6,538)			page 9
9	Pro forma Operating Revenue	$ 54,139,968			
10	Pro forma Increase for Covanta Contract		$ 3,062,670		page 19
11	Pro forma Increase at present rates		7,657,422		page 1
12	Total Operating Revenues			$ 64,860,060	
	Fuel Cost				
13	Test year fuel costs	$ 27,672,554			page 1
14	Pro forma increase to fuel for weather	834,548			page 6
15	Pro forma increase to fuel for customers	100,107			page 7
16	Pro forma decrease to fuel for unbilled	(15,195)			page 8
17	Pro forma decrease to fuel for test year adjustments	(101,084)			page 8
18	Pro forma increase to fuel for change in fuel price	2,700,421			page 8
19	Pro forma increase to fuel for rounding	6,567			page 8
20	Pro forma decrease to fuel for IRRF secondary steam	(5,198)			page 8
21	Pro forma Fuel Costs	$ 31,192,720			
22	Pro forma Increase for Covanta Contract		$ 389,537		page 19
23	Pro forma Fuel Costs 12/1/2008			$ 31,582,257	
	Other Cost of Goods Sold				
24	Test year other cost of goods sold	$ 1,296,193			page 1
25	Pro forma increase to fuel for electricity demand	105,766			page 10
26	Pro forma increase to fuel for sewer	38,671			page 10
27	Pro forma increase to fuel for chemicals	114,201			page 10
28	Pro forma Other Cost of Goods Sold	$ 1,554,831	$ -	$ 1,554,831	
	Operations & Maintenance				
29	Test year operations & maintenance	$ 8,998,230			page 11
30	Adjustment for environmental	39,000			page 11
31	Adjustment for pump parts	65,339			page 11
32	Adjustment for contracted services	217,632			page 11
33	Adjustment for real estate rental license	61,905			page 11
34	Adjustment for sludge	8,933			page 11
35	Adjustment for plant electrical system upgrade	29,166			page 11
36	Adjustment for ash	230,344			page 11
37	Adjustment for coal handling & contracted services	500,000			page 11
38	Pro forma Operations and Maintenance	$ 10,150,549			
39	Adjustment for Covanta O & M		$ 2,630,256		page 19
40	Pro forma Operations & Maintenance 12/1/2008			$ 12,780,805	
	General & Administrative Expense				
41	Test year general & administrative expense	$ 6,312,493			page 1
42	Pro forma increase to payroll adjustment	1,194,043			page 12
43	Pro forma decrease to pension	(129,870)			page 13
44	Pro forma increase to payroll-related employee benefit	78,543			page 13
45	Pro forma increase to non payroll-related employee benefit	420,700			page 13
46	Pro forma increase to equipment incentive rebate expense	1,800			page 14
47	Pro forma increase to reflect removal of manufacturing non-payroll	47,820			page 14
48	Pro forma increase to regulatory expense	31,200			page 14
49	Pro forma decrease to insurance expense	(65,264)			page 14
50	Pro forma amortization of rate case expense	147,523			page 14
51	Pro forma General & Adminstrative Expense	$ 8,038,987	$ -	$ 8,038,987	

CITIZENS THERMAL ENERGY
Summary of Pro Forma Revenue Requirement

Line No.						Reference
	Depreciation & Amortization					
52	Test year depreciation & amortization	$ 1,741,597				page 15
53	Increase depreciation	701,380				page 15
54	Pro forma Depreciation & Amortization	$ 2,442,977	$ -	$ 2,442,977		
	Taxes					
55	Test year taxes	$ 1,596,523				page 1
56	Increase in payroll taxes	130,035				page 16
57	Decrease in property tax	(27,231)				page 17
58	Increase in IURT at present rates	89,107				page 18
59	Pro forma Taxes	$ 1,788,434				
60	IURT on Phase I increase		$ 107,204			page 18
61	IURT on Phase II increase		42,877			page 19
62	Pro forma Taxes including Phase I & II			$ 1,938,515		
	Other Funds Requirements					
63	Long-term interest and principal	$ 5,267,722				MDS - 1
64	Interest income	(149,654)				MDS - 2
65	Debt Service	$ 5,118,068	$ -	$ 5,118,068		
66	Working Capital	$ -				
67	Extensions and Replacements	$ 3,846,597	$ -	$ 3,846,597		JOD - 1
	Cash Requirement Offsets					
68	Depreciation & Amortization	$ (2,442,977)	$ -	$ (2,442,977)		page 15
69	Pro forma Revenue Requirement before IURT increase	$ 61,690,186		$ 64,860,060		
70	Subtotal Revenue Requirement Deficit	$ 7,550,218		$ (0)		
71	Additional IURT on Revenue Requirement Deficit - Phase I	$ 107,204		$ -		
72	Total Revenue Requirement Deficit	$ 7,657,422		$ -		

CITIZENS THERMAL ENERGY
Normal Weather Adjustment

Line No		A HDD	B CDD	C Rate 1	D Rate 2	E Rate 3 Covanta Steam	F Rate 3 CTE Steam	G Customer Contract	H Total
	Margin Adjustment:								
1	Adjusted Test Year Therms			2,725,074	32,104,042	8,637,760	3,711,549	24,630,923	71,809,348
2	Base Load Therms			632,712	19,484,700	41,208	229,151	17,366,892	37,754,663
3	Test Year Heat/Cool Load Therms	4,999	1,063	2,092,362	12,619,342	8,596,552	3,482,398	7,264,031	34,054,685
4	Normal Heat/Cool Load Therms	5,521	1,042	2,543,122	14,104,820	8,598,738	2,731,223	8,117,783	36,095,686
5	Normal Temp Adjustment	522	(21)	450,760	1,485,478	2,186	(751,175)	853,752	2,041,001
6	Test Year Volumetric Margin			$ 0.80808	$ 0.10603	$ 0.06684	$ 0.08303	$ 0.24214	
7	Normal Temperature Margin Adjustment			$ 364,250	$ 157,505	$ 146	$ (62,370)	$ 206,728	$ 666,259
	Fuel Cost Adjustment:								
8	Normal Temp Adjustment			450,760	1,485,478	2,186	(751,175)	853,752	2,041,001
9	Test Year Fuel Cost per Therm			$ 0.40690	$ 0.41548	$ 0.14279	$ 0.42922	$ 0.41706	
10	Normal Temperature Fuel Cost Adjustment			$ 183,414	$ 617,180	$ 312	$ (322,421)	$ 356,063	$ 834,548
11	**Revenue Adjustment**			$ 547,664	$ 774,685	$ 458	$ (384,791)	$ 562,791	$ 1,500,807

CITIZENS THERMAL ENERGY
Customer Number Adjustment

Line No		A Rate 1	B Rate 2	C Rate 3 Covanta Steam	D Rate 3 CTE Steam	E Customer Contract	F Total
	Margin Adjustment:						
1	Change in Customer Demand - Therms		563				
2	Demand Rate		$ 104.39				
3	Increased Demand Charge	$ -	$ 58,765	$ -	$ -	$ -	$ 58,765
4	Change in Customer Therms	97,729	178,883	0	0	0	
5	Energy Charge Margin	$ 0.80808	$ 0.10603	$ 0.06684	$ 0.08303	$ 0.24214	
6	Increased Energy Charge Margin	$ 78,973	$ 18,967	$ -	$ -	$ -	$ 78,973
7	Reclass Customer		$ (29,262)				
8	Net Change in Energy Charge Margin		$ (10,295)				$ (10,295)
9	Net Change in Annual Meter/Customer Count	802	(6)	0	0	0	
10	Test Year Avg. Customer Charge	$ 112.21					
11	Increased Customer Charge	$ 89,992	$ -	$ -	$ -	$ -	$ 89,992
12	Customer Number Adjustment	$ 168,965	$ 48,470	$ -	$ -	$ -	$ 217,435
	Fuel Cost Adjustment:						
13	Change in Customer Therms	97,729	145,233	0	0	0	
14	Test Year Fuel Cost per Therm	$ 0.40690	$ 0.41548	$ 0.14279	$ 0.42922	$ 0.41706	
15	Customer Number Fuel Cost Adjustment	$ 39,766	$ 60,341	$ -	$ -	$ -	$ 100,107
16	**Revenue Adjustment**	$ 208,731	$ 108,811	$ -	$ -	$ -	$ 317,542

CITIZENS THERMAL ENERGY
Other Adjustments

Line No		A Rate 1	B Rate 2	C Rate 3 Covanta Steam	D Rate 3 CTE Steam	E Customer Contract	F Total
1	Unbilled Energy Charge	$ (18,593)	$ -	$ -	$ -	$ -	$ (18,593)
2	Unbilled Fuel Charge	(15,195)					(15,195)
3	Unbilled Fuel Revenue	$ (33,788)	$ -	$ -	$ -	$ -	$ (33,788)
4	Test Year Billing Adj. - Energy Charge	$ 19,323	$ 5,220	$ -	$ 360	$ -	$ 24,903
5	Test Year Billing Adj. - Fuel Cost	$ 8,880	$ 15,731	$(125,695)	$ -	$ -	$ (101,084)
6	Test Year Billing Adj. - Revenue	$ 28,203	$ 20,951	$(125,695)	$ 360	$ -	$ (76,181)
	Change in Avg. Customer Charge:						
7	Proforma Meter Count	2,025					
8	Test Year Avg. Customer Charge	$ 112.21					
9	Proforma Avg. Customer Charge	104.69					
10	Change in Avg. Customer Charge	$ (7.52)					
11	Avg. Customer Charge Adjustment	$ (15,225)					
	Change in Fuel Price:						
12	Proforma Sales - Therms	3,267,198	33,768,403	8,639,946	2,960,374	25,484,675	74,120,596
13	Test Year Fuel Cost per Therm	$ 0.40690	$ 0.41548	$ 0.14279	$ 0.42922	$ 0.41706	
14	Proforma Fuel Cost per Therm	0.44998	0.44998	0.20000	0.44998	0.44998	
15	Change in Fuel Cost per Therm	$ 0.04308	$ 0.03450	$ 0.05721	$ 0.02075	$ 0.03292	
16	Fuel Price Adjustment	$ 140,737	$ 1,165,024	$ 494,269	$ 61,438	$ 838,953	$ 2,700,421
17	Fuel Cost Rounding						$ 6,567
18	Remove IRRF Secondary Cost						$ (5,198)

CITIZENS THERMAL ENERGY
Computation of Pro Forma Other Revenue

Line No.		
1	Test Year Other Revenue	$6,538
2	Pro forma Adjustment to Other Revenue	(6,538)
3	Pro forma Other Revenue	$0

CITIZENS THERMAL ENERGY
Computation of Pro Forma Non-Fuel Cost of Goods Sold

Line No.		
1	Test Year Cost of Goods Sold	$ 1,296,193
2	Pro forma Adjustment to Electric Demand Charge	105,766
3	Pro forma Adjustment to Sewer	38,671
4	Pro forma Adjustment to Chemicals	114,201
5	Pro forma Cost of Goods Sold	$ 1,554,831

CITIZENS THERMAL ENERGY
Computation of Pro Forma Operations & Maintenance

Line No.		
1	Test Year Operations and Maintenance	$ 8,998,230
2	Pro forma Increase for Environmental	39,000
3	Pro forma Increase for Pump Parts	65,339
4	Pro forma Increase for Contracted Services	217,632
5	Pro forma Increase for Plant Electrical System Upgrade	29,166
6	Pro forma Increase for Real Estate Rental License	61,905
7	Pro forma Increase for Sludge	8,933
8	Pro forma Increase for Ash	230,344
9	Pro forma Increase for Coal Handling Parts & Contracted Services	500,000
10	Pro forma Operations & Maintenance	$ 10,150,549

CITIZENS THERMAL ENERGY
Computation of Pro Forma Payroll Expense

Line No.		
1	Pro forma Annualized Payroll Expense	$ 6,476,682
2	Pro forma Capitalized Payroll	(115,232)
3	Pro forma Overtime Expense	682,837
4	Pro forma Supplemental Pay	806,386
5	Pro forma Payroll Expense	$ 7,850,672
6	Test Year Payroll Expense	6,656,629
7	Pro forma Payroll Increase	$ 1,194,043

CITIZENS THERMAL ENERGY
Computation of Pro Forma Employee Benefits Expense

Line No.		
1	Test Year Employee Benefits Expense	$1,893,235
2	Test Year Employee Benefits - CSS Allocation to Steam	422,335
	Payroll-Related Employee Benefits:	
3	Pro forma Disability Adjustment	14,606
4	Pro forma Citizens Gas 457 (B) Plan Adjustment	28,136
5	Pro forma Employee Thrift Plan Adjustment	35,800
6	Pro forma Payroll Related Employee Benefits Expense Adjustment	$ 78,543
	Non-Payroll Related Employee Benefits:	
7	Pension Adjustment	($129,870)
8	Insurance Adjustment	416,485
9	Other Benefits	934
10	Post Retirement Benefits Adjustment	3,281
11	Pro forma Non-Payroll Related Employee Benefits	$ 290,830
12	Total Pro forma Employee Benefits	$ 2,684,943

CITIZENS THERMAL ENERGY
Computation of Pro Forma Other General & Administration Expense

Line No.			
1	Test Year General & Administrative Expenses	$	406,310
2	Pro forma Increase to Regulatory Expense		31,200
3	Pro forma Decrease to Insurance Expense		(65,264)
4	Pro forma Amortization of Rate Case Expense		147,523
5	Pro forma Increase to Equipment Incentive Rebate Expense		1,800
6	Pro forma Increase to Reflect Removal of Manufacturing Non-payroll		47,820
7	Pro forma Other General & Administrative Expense	$	569,389

CITIZENS THERMAL ENERGY
Determination of Pro Forma Depreciation Expense

Line No.		
1	Test Year Depreciation & Amortization Expense - Steam	$1,689,374
2	Test Year Depreciation Expense - CSS to Steam	52,223
3	Adjustment to Depreciation	701,380
4	Pro forma Depreciation Expense	$ 2,442,977

CITIZENS THERMAL ENERGY
Determination of Pro Forma Payroll Tax Expenses

Line No.			
1	Pro forma Taxable Payroll	$ 8,160,067	
2	Less: Payroll Exempt from Social Security Tax	(473,197)	
3	Payroll Subject to FICA Tax	$ 7,686,870	
4	Pro forma Social Security Tax at 6.2%		$ 476,586
5	Pro forma SUTA Tax		13,688
6	Pro forma Medicare Tax at 1.45%		118,321
7	Pro forma Payroll Tax Expenses		$ 608,595
8	Test Year Payroll Tax Expenses - Steam		406,790
9	Test Year Payroll Tax Expenses - CSS to Steam		71,770
10	Test Year Payroll Tax Expenses		$ 478,560
11	Pro forma Increase to Payroll Tax Expenses		$ 130,035

CITIZENS THERMAL ENERGY
Determination of Pro Forma Property Tax

Line No.		
1	Test Year Property Tax Expense - Steam	$ 438,831
2	Test Year Property Tax Expense - CSS to Steam	10,279
3	Pro forma Decrease in Property Tax	(27,231)
4	Pro forma Property Tax Payment	$ 421,879

CITIZENS THERMAL ENERGY
Determination of Pro Forma Indiana Utility Receipts Tax Expense

Line No.		
1	Pro forma Revenue at Present Rates Subject to IURT	$ 54,139,968
2	Indiana Utility Receipts Tax @1.40%	757,960
3	Test Year IURT Expense	668,853
4	Pro forma IURT Increase Due to Increased Revenues at present Rates	$ 89,107
	Increase in Tax Due to Increase in Revenue Requirement:	
5	Pro forma Revenue Requirement Deficit Subject to IURT	7,550,218
6	Deficit Adjusted for IURT (line 5 / (1 - .014))	7,657,422
7	Pro forma Tax Increase to Reflect Revenue Requirement Deficit	$ 107,204

CITIZENS THERMAL ENERGY
Computation of Covanta Contract Impact Effective 12/1/2008

Line No.		
1	Pro forma increase in operations & maintenance	$ 2,630,256
2	Pro forma increase in fuel cost	389,537
3	Pro forma increase subject to IURT	$ 3,019,793
4	Increase adjusted for IURT (line 3 / (1-.014))	3,062,670
5	Pro forma IURT increase to reflect Covanta contract at 12/1/08	$ 42,877

Petitioner's Exhibit LSP-2S
Citizens Thermal Energy
IURC Cause No. 43201

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF THE BOARD OF DIRECTORS FOR UTILITIES OF THE DEPARTMENT OF PUBLIC UTILITIES OF THE CITY OF INDIANAPOLIS, AS SUCCESSOR TRUSTEE OF A PUBLIC CHARITABLE TRUST, D/B/A CITIZENS THERMAL ENERGY, FOR APPROVAL OF A STEAM PURCHASE AGREEMENT WITH COVANTA INDIANAPOLIS, INC. AND AUTHORITY TO RECOVER THE RETAIL JURISDICTIONAL COSTS INCURRED UNDER SAID AGREEMENT THROUGH PETITIONER'S STANDARD CONTRACT RIDER NO. 1, FUEL COST ADJUSTMENT	)	CAUSE NO. 43025
	)	APPROVED: DEC 28 2006

BY THE COMMISSION:
Gregory D. Server, Commissioner
Abby R. Gray, Administrative Law Judge

On April 26, 2006, the Board of Directors for Utilities of the Department of Public Utilities of the City of Indianapolis, as Successor Trustee of a Public Charitable Trust, D/B/A Citizens Thermal Energy ("Petitioner" or "Citizens") filed with the Indiana Utility Regulatory Commission ("Commission") its Petition in this Cause requesting the Commission to (i) find reasonable and approve a Steam Purchase Agreement dated December 9, 2005 (the "Proposed Agreement"), that Petitioner entered into with Covanta Indianapolis, Inc. ("Covanta") and (ii) authorize Citizens to recover the retail jurisdictional costs incurred under the Proposed Agreement through its Standard Contract Rider No. 1, Fuel Cost Adjustment ("FAC Rider"). The Proposed Agreement is a replacement agreement to an existing agreement between Petitioner and Covanta that originated in 1986 (the "Existing Agreement").

On May 4, 2006, Eli Lilly & Company and National Starch & Chemical Company, designated collectively as Citizens Thermal Energy Large Volume Customers ("Large Volume Customers"), filed a *Petition to Intervene* in this Cause. The Large Volume Customers' petition to intervene was granted by the Presiding Officers in a docket entry issued on May 12, 2006.

On June 5, 2006, Petitioner filed a *Motion to Waive Prehearing Conference and Establish Procedural Schedule*. In that motion, Petitioner requested that a prehearing conference be waived and proposed a procedural schedule that had been agreed to by the Large Volume Customers and the Indiana Office of Utility Consumer Counselor ("OUCC"). The Presiding Officers granted Petitioner's *Motion to Waive Prehearing*

Conference and Establish Procedural Schedule in a docket entry issued on June 8, 2006, which established a procedural schedule for this Cause, including a public evidentiary hearing to commence on August 18, 2006.

On May 12, 2006, Petitioner prefiled its prepared case-in-chief testimony and exhibits. On July 7, 2006, and July 11, 2006, respectively, the Large Volume Customers and the OUCC prefiled their prepared case-in-chief testimony. On July 28, 2006, the OUCC prefiled an inadvertently omitted portion of its prepared case-in-chief testimony. On August 8, 2006, and August 17, 2006, respectively, Petitioner prefiled its prepared rebuttal testimony and prepared supplemental rebuttal testimony.

Pursuant to notice as provided by law, proof of which was incorporated into the record and placed in the Commission's official files, a public evidentiary hearing was commenced on August 18, 2006, at 9:30 a.m. in Room E306, Indiana Government Center South, Indianapolis, Indiana. At the hearing, the prefiled testimony and exhibits described above were admitted into the record and certain witnesses were cross examined.

On September 20, 2006, the Commission entered an Order on Less Than All Issues in this Cause approving a Stipulation and Settlement Agreement entered into by the parties. The Stipulation and Settlement Agreement resolved all issues raised by Petitioner's *Motion for Relief Conditional on Outcome of Proceeding and for Leave to File Supplemental Testimony in Support Thereof* and the Large Volume Customers' *Verified Motion for Mediation in Response to Citizens' Motion for Relief Conditional on Outcome of Proceeding* filed on July 24, 2006, and July 31, 2006, respectively. A public evidentiary hearing on those matters was held on August 31, 2006.

Based on the applicable law and the evidence of record, the Commission now finds:

1. **Notice and Jurisdiction.** Notice of the public evidentiary hearing held on August 18, 2006, was given as required by law. Petitioner is a municipal steam utility subject to the jurisdiction of this Commission in the manner and to the extent provided by the laws of the State of Indiana, including certain sections of the Public Service Commission Act, as amended. Therefore, the Commission has jurisdiction over the parties and the subject matter of this proceeding.

2. **Petitioner's Steam Business.** Citizens is a municipal steam utility that maintains its principal offices and provides steam service in Marion County, Indiana. It owns, operates, manages and controls plant and equipment used for the production, distribution and furnishing of steam utility service to the public. Citizens provides steam service to approximately 220 customers in the City of Indianapolis through steam production and distribution facilities purchased in November 2000 from Indianapolis Power & Light Company ("IPL"). Citizens' purchase of those facilities from IPL was approved by this Commission in its October 4, 2000, Order in Cause No. 41716.

3. **Petitioner's Case-in-Chief Testimony.**

A. Overview of Citizens' Steam Supply Resources, Experience with Covanta and the Proposed Agreement. Mr. William A. Tracy, Petitioner's Senior Vice President of Operations, provided an overview of Citizens' steam supply resources, past experience with Covanta and the Proposed Agreement. He testified that eight steam boilers and related facilities housed at Petitioner's Perry K steam production plant are the primary sources of the steam Petitioner distributes to the public. Citizens also purchases steam produced at the Indianapolis Resource Recovery Facility (the "IRRF"), which is a waste-to-energy facility owned and operated by Covanta. Pursuant to the Existing Agreement, which originated in 1986 and was assigned to Citizens by IPL, the IRRF supplies over 40 percent of the steam required for Citizens to meet its customers' annual steam requirements. The Commission approved the Existing Agreement on March 19, 1986, pursuant to the Commission's 30-day filing procedure and Indiana Code Section 8-1-2.4-4. Various modifications to the Existing Agreement have also been approved pursuant to the Commission's 30-day filing procedure. Pursuant to its FAC Rider, Citizens periodically adjusts its rates and charges for steam service to reflect, among other things, changes in the cost of fuel and the cost of purchases from Covanta incurred to supply steam to Petitioner's retail customers. (Pet. Exh. A at 4-5; Pet. Exh. A-1 at 2-4)

The Existing Agreement, as amended, expires on November 30, 2008. Pursuant to a provision in the Existing Agreement requiring the negotiation of a replacement agreement, Petitioner and Covanta began discussions in early 2005 to negotiate a new steam purchase agreement. The Proposed Agreement is the result of those negotiations. Subject to Commission approval, the effective date of the Proposed Agreement is December 1, 2008. (Pet. Exh. A-1 at 3) Citizens met with several of its large steam customers to discuss the Proposed Agreement, prior to seeking its approval and initiating this proceeding. (Tr. at A-55, A-56)

Mr. Tracy testified that the steam purchased from Covanta is one of the least expensive resources used to supply steam to Citizens' customers. As a result, Citizens purchases as much steam as possible from Covanta to displace steam using coal, natural gas and No. 2 Fuel Oil as a fuel source. Relative to other fuel supplies (*i.e.*, coal, natural gas, coke oven gas and No. 2 Fuel Oil), steam purchased from Covanta accounted for 46% of the steam delivered to customers during 2005. (Pet. Exh. A at 5-6)

Mr. Tracy stated that under the Proposed Agreement, steam produced at the IRRF by Covanta will remain one of Citizens' least expensive supply resources. Mr. Tracy also described other benefits that Citizens and its customers realize as a result of making purchases from Covanta. He testified that the IRRF is a reliable source of steam operated by an experienced and proven company. Covanta and its affiliates operate over 30 large-scale waste-to-energy facilities predominantly located in the United States. Mr. Tracy emphasized that Citizens' purchases of steam from Covanta provide Citizens a diversified portfolio, lower Citizens' operating and maintenance costs by reducing the amount of steam produced at the Perry K plant and further the policy of the State to

encourage the development of cost-effective alternate energy production facilities, including waste-to-energy facilities such as the IRRF. Mr. Tracy explained that Citizens' resource planning strategy is to maintain existing resources and, to the extent possible, avoid expensive capital investments that would lead to higher rates for customers. Mr. Tracy stated that approval of the Proposed Agreement and continued purchases of steam produced at the IRRF are necessary for Citizens to execute that strategy. (*Id.* at 7-8)

At the hearing, Mr. Tracy was cross-examined about Covanta's reliability and supply obligations under the Proposed Agreement. Mr. Tracy emphasized that Covanta has been and is expected to continue to be a reliable supplier of steam.

Mr. Tracy next testified regarding the negotiation of the Proposed Agreement. He explained that the Proposed Agreement is an arms-length agreement negotiated by two unaffiliated commercial entities. Mr. Tracy stated that because the costs of steam purchased from Covanta are passed through directly to customers through Citizens' FAC Rider, Citizens negotiated the Proposed Agreement with its customers' interests in mind. He testified that Citizens' objectives during the negotiations were focused on price (pricing and other terms that would result in the lowest overall cost to customers), providing Covanta an incentive to maximize the output of the IRRF during the winter heating season, reliability and quality. (*Id.* at 8–9)

Mr. Tracy opined that Citizens achieved its objectives and negotiated a very favorable agreement that will provide benefits for Citizens' customers for years to come. As an example, Mr. Tracy pointed out the inclusion of a Winter Incentive Premium in the Proposed Agreement, which is designed to provide Covanta an incentive to produce more steam during the winter months when steam usage is at its highest. With respect to quality and reliability, Mr. Tracy explained that the Proposed Agreement sets forth obligations that will ensure Citizens and Covanta work together regarding maintenance of the IRRF and coordinate operations during planned and unplanned outages. He also discussed specific quality requirements that are set forth in the Proposed Agreement to ensure Citizens meets its customers' steam quality needs related to food and milk products and pharmaceutical manufacturing. (*Id.* at 9–10)

Mr. Tracy testified that the Proposed Agreement recognizes this Commission's oversight role regarding Citizens' steam purchases from Covanta. He pointed out that Commission approval is a condition precedent to the Proposed Agreement's effectiveness. He also explained that the Proposed Agreement obligates the parties to furnish each other information necessary to verify payments or other obligations under the Proposed Agreement and, subject to the ability to seek protection of confidential information, to make such information available to the Commission. (*Id.* at 10)

Finally, Mr. Tracy explained that the term of the Proposed Agreement, which begins on December 1, 2008, is 20 years. However, either party can terminate the Proposed Agreement by providing written notice 30 months in advance of such termination. Thus, Mr. Tracy explained, if technological or other developments cause

another resource option to become more economical than the Proposed Agreement, Citizens will be able to take advantage of that option. (*Id.* at 11-12)

B. Citizens' Steam Supply Resources and Operational and Pricing Provisions of the Proposed Agreement. Mr. James O. Dillard, General Manager, Facilities and Engineering, for Citizens' thermal energy division testified regarding the supply resources Citizens utilizes to serve its steam customers. Mr. Dillard also described the operational and pricing features of the Proposed Agreement. Finally, Mr. Dillard discussed the alternatives to purchasing steam from Covanta that Citizens considered.

(1) Steam Supply Resources. Mr. Dillard testified that Citizens sends out approximately 81,000,000 therms of steam per year. On the peak winter day, Citizens needs approximately 1,500,000 lbs/hour of steam to meet its system demand. He explained that Citizens produces the majority of its steam requirements with the eight steam boilers at its Perry K plant, which include three coal-fired boilers, two boilers that burn No. 2 Fuel Oil and three that burn coke oven gas or natural gas. The balance of Citizens' steam supply is produced at the IRRF and purchased from Covanta. Mr. Dillard stated that Citizens purchases approximately 42,000,000 therms per year of steam from Covanta, representing approximately one-half of Citizens' annual steam send-out. (Pet. Exh. B at 3-4)

Mr. Dillard explained that Citizens dispatches its steam supply resources on a least cost basis. Typically, steam purchases from Covanta and Citizens' coke oven gas boilers are dispatched first because they are the lowest cost resources. Steam produced with coal, natural gas and No. 2 Fuel Oil are dispatched next in that order. During most of the year, steam purchased from Covanta and produced with coke oven gas is sufficient to meet Citizens' requirements. During the winter heating season, however, significant amounts of natural gas are often required to supplement the lower cost fuels. (*Id.* at 4)

Mr. Dillard next discussed how the cost of the various steam supply resources Citizens utilizes compare to each other. He emphasized that to make a valid comparison of steam purchased from Covanta to steam produced at the Perry K plant, it must be recognized that steam purchased from Covanta is a finished product. Thus, the cost of that finished product cannot be compared directly to the cost of any of the various fuels used to produce steam at the Perry K plant, because Citizens incurs other costs to produce that steam, such as operating and maintenance costs. Furthermore, Mr. Dillard stated that the cost to produce steam at the Perry K plant is affected by boiler and plant efficiencies. Taking those additional costs into account, Mr. Dillard provided a comparison of the cost to produce steam at the Perry K plant to the cost of purchasing steam from Covanta under the Existing Agreement based on the 12 months ending September 30, 2005:

	Existing Agreement	Proposed Agreement
Covanta Primary[1]	$2.80/Dth	$4.14/Dth
Coke oven gas	$3.90/Dth	$3.90/Dth

[1] Covanta Primary refers to steam used to serve customers under Rate 1, Rate 2 and Rate 3B of Citizens' tariff.

Coal	$4.50/Dth	$4.50/Dth
Natural Gas	$12.80/Dth	$12.80/Dth
No. 2 Fuel Oil	$14.40/Dth	$14.40/Dth

(*Id.* at 5, 16)

(2) Operational Features of the Proposed Agreement. Mr. Dillard next testified regarding the operational features of the Proposed Agreement. Under the Proposed Agreement, the parties generally have reciprocal obligations to sell and buy the IRRF's available production in an amount at least equal to 29 million therms annually. Mr. Dillard explained that Citizens' and Covanta's operations will be coordinated by an Operating Committee. The Operating Committee will coordinate all maintenance activities at the IRRF and the Perry K plant in order to minimize disruptions to their respective operations. The Operating Committee also will be responsible for facilitating communications and information exchanges as well as establishing and implementing procedures governing dispatch of the IRRF. Although Citizens' dispatch procedures may be adjusted slightly to ensure compliance with the minimum annual purchase requirement established in the Proposed Agreement, Mr. Dillard stated that any such changes will not affect the overall cost of steam because steam purchased from Covanta pursuant to the Proposed Agreement will remain one of Citizens' lowest cost supply resources. (*Id.* at 5-8)

On redirect examination at the hearing, Mr. Dillard explained why Citizens chose to negotiate an annual minimum supply obligation as opposed to monthly minimum supply obligations.

(3) Pricing Features of the Proposed Agreement. Mr. Dillard discussed in detail the pricing established in the Proposed Agreement. Mr. Dillard testified that under the Proposed Agreement, Citizens will make a Monthly Steam Payment to Covanta, which will include the following components: Base Steam Payment, Summer Steam Payment, Secondary Steam Payment, Demand Charge, O&M Charge, Force Majeure Charge and a charge for Incremental Chemical Costs. The Proposed Agreement also contains provisions for truing up payments under certain circumstances. (*Id.* at 8-9)

Mr. Dillard stated that the Base Steam Payment is the sum of three separate components multiplied by the amount of steam purchased during the month: (1) the Base Rate initially set to $0.305/therm; (2) the Winter Incentive Premium initially set to $0.10/therm; and (3) the Force Majeure Charge provided for in Article XIII of the Proposed Agreement. Both the Base Rate and the Winter Incentive Premium are subject to adjustment in accordance with Exhibit A of the Proposed Agreement. (*Id.* at 9)

Mr. Dillard explained that the Winter Incentive Premium will be applicable during the months of December through February. The amount of the Winter Incentive Premium is subject to a downward adjustment if output from the IRRF is not available at least 85% of the time during those months. In the event the IRRF's output is available

less than 70% of the time during those months, no Winter Incentive Premium will be paid. (*Id.* at 9-10)

Mr. Dillard testified that the Summer Steam Payment is applicable to steam produced by the IRRF that exceeds the amount of steam Citizens distributes to the public and is used to produce chilled water or another warm weather application during the months of April through October. The rate for Summer Steam is initially set to $0.20/therm and is subject to escalation by a factor reflecting the cost of electricity used to produce chilled water. (*Id.* at 10)

Mr. Dillard stated that the Secondary Steam Payment relates to output from the IRRF purchased by Citizens, other than Base Steam and Summer Steam, which is used by Citizens to generate electricity at the Perry K Plant. Costs incurred for the Secondary Steam Payment are not recovered through the FAC Rider. (*Id.* at 10-11)

Mr. Dillard next discussed the Demand Charge, O&M Charge and charges for Incremental Chemical Costs. The Demand Charge equals $133,330 per month and will not escalate during the 20-year term of the Proposed Agreement. The Demand Charge is subject to reduction in the event Covanta fails to meet its requirement to produce and make available for sale 29,000,000 therms of steam annually. In that event, Citizens will receive a rebate of the Demand Charge equal to the amount of the shortfall multiplied by $0.055/therm. The O&M Charge is initially set to $83,333 per month and subject to an escalator formula to reflect increases in labor costs. The charge for Incremental Chemical Costs will only become applicable if Covanta proposes a chemical change that is unacceptable to Citizens, and Citizens proposes an alternative. If Covanta accepts an alternative proposed by Citizens, Citizens only will be responsible for the difference between the cost incurred as a result of Citizens' alternative proposal and the costs that would have been incurred under Covanta's proposal. (*Id.* at 11-12)

Finally, Mr. Dillard described the Force Majeure Surcharge established in the Proposed Agreement. Basically, the Force Majeure Surcharge is a per therm charge that, if it ever becomes applicable, will allow Covanta to recover a portion of capital and operating costs incurred as a result of changes in law. The first $1 million of any capital costs necessitated by a change in law are borne by Covanta and the total remaining costs (capital and operating) to be included in a Force Majeure Surcharge will be amortized over ten years, with interest. However, the total costs imposed on Citizens under a Force Majeure Surcharge cannot exceed the total amount payable by Citizens to Covanta during the year immediately preceding the year in which the change in law necessitating the Force Majeure Surcharge occurred. Moreover, if Citizens disagrees with the appropriateness of a Force Majeure Surcharge proposed by Covanta, it may terminate the Proposed Agreement upon providing Covanta 30 months' prior written notice and, if applicable, making a lump sum payment to reimburse Covanta for certain capital costs incurred or committed to prior to such notice of termination. (*Id.* at 12; Pet. Exh. A-2 at 18)

Mr. Dillard then discussed the pricing differences between the Existing Agreement and the Proposed Agreement that he considers most significant. Mr. Dillard opined that the most significant pricing differences between the two agreements are:

- Base steam price adjustment: The mechanism used to adjust the Base Steam Rate is significantly different than the corresponding mechanism in the Existing Agreement and is intended to mitigate the volatility of energy prices.[2]
- Demand charge: A Demand Charge was added to the Proposed Agreement, which, among other things, will provide Covanta a steady level of funds to use to maintain the steam line used to deliver steam from the IRRF and other IRRF facilities. As noted above, Mr. Dillard explained that Covanta is obligated to refund a portion or all of the Demand Charge if it fails to maintain certain availability targets.
- Summer Steam price adjustment: The index used to adjust the Summer Steam charge also is changed in the Proposed Agreement and is intended to maintain consistency between the cost of steam energy and the energy alternative for chilled water producers that purchase Summer Steam.
- Winter Incentive Premium: The Winter Incentive Premium was added to encourage Covanta to schedule outages outside of and develop alternative sources of trash during the winter heating season.

In sum, Mr. Dillard explained that the Proposed Agreement's pricing, like its other provisions, was the product of arms length negotiations between two unaffiliated parties, based on the Indianapolis energy market in late 2004 and early 2005. He stated that Citizens evaluated all of the charges that Covanta proposed for inclusion in the Proposed Agreement and agreed only to those charges that Citizens considered reasonable. Mr. Dillard emphasized that the various charges set forth in the Proposed Agreement were not negotiated in isolation from each other. For example, attempts to lower or eliminate one charge had to be balanced against Covanta's counter proposals to raise other charges. Citizens attempted to obtain an optimal package of charges and assessed the total cost of the package against the costs it would incur if it pursued alternative sources of steam supply. (*Id.* at 13-15)

(4) Alternative Steam Supply Resources. Mr. Dillard then discussed the alternatives to purchasing steam from Covanta that Citizens considered. He testified that Citizens considered several alternatives with the simplest, and most likely, being an increased utilization of existing boilers at the Perry K plant. Mr. Dillard stated that although the Perry K plant has adequate capacity to supply Citizens' steam requirement, the existing boilers that would replace steam purchases from Covanta would not burn the lowest cost fuels used to produce steam at the plant, which are coke oven gas and coal. Instead, if Citizens were to replace steam purchases from Covanta with additional output from the Perry K plant's existing boilers, additional natural gas would have to be burned,

[2] Petitioner's witness Mr. Craig A. Jones testified that a large increase in the weighted average cost of coal in the month of August 2005 resulted in a large increase in costs incurred in September 2005 for steam purchased from Covanta. He stated that the Proposed Agreement's adjustment mechanism would have mitigated the effect of that increase. (Pet. Exh. C at 11-12)

which would cost significantly more than purchasing steam from Covanta under the Proposed Agreement. Citizens also evaluated other options, including the installation of a circulating fluidized bed boiler, converting one of the gas-fired boilers to a coal-fired boiler and coal gasification. Citizens concluded that based on the capital costs, permitting requirements and other considerations associated with any of the other options it evaluated, the Proposed Agreement clearly is the least cost option. (*Id.* at 17-18)

C. Rate Impacts of Proposed Agreement. Mr. Craig A. Jones, Citizens' Manager – Rates and Regulatory Affairs, testified regarding the customer bill impact of the Proposed Agreement as well as the potential impact to customers if Covanta stopped supplying steam to Citizens.

Mr. Jones presented an analysis that quantifies the difference in the pricing provisions of the Existing Agreement and the pricing established in the Proposed Agreement. His analysis involved utilizing the same data submitted in Citizens' most recent FAC filing, with the exception that the Covanta prices were changed to reflect those in the Proposed Agreement. To conduct his analysis, Mr. Jones used the methodology approved by the Commission in Cause No. 41969 – FAC05. Based on Mr. Jones's analysis, the Proposed Agreement would result in an approximately $3.0 million increase of costs to be recovered through the FAC Rider. Mr. Jones estimated that the FAC rate would be $0.04687 per therm higher than the per therm FAC rate Citizens proposed in its most recent FAC filing. This would result in an estimated increase of 3.48% and 5.35% for Rate 1 and Rate 2 customer bills, respectively. (Pet. Exh. C at 3-5)

Mr. Jones explained that there are three rates reflected in Citizens' steam tariff, with one additional customer being served under a customer-specific contract. Rate 1 is for small retail customers and Rate 2 is for large retail customers. The FAC rider is applicable to both Rate 1 and Rate 2. Rate 3 is further divided into Rate 3A and Rate 3B. Mr. Jones explained that during the summer months the IRRF generally produces more steam than Citizens needs. Rate 3A was created to allow customers who could make use of that excess steam to purchase it at a reduced rate. The costs of that steam are charged directly to those customers and, therefore, the FAC Rider is not applicable to Rate 3A. Rate 3B applies to those same customers in the event the steam available for sale under Rate 3A is not sufficient to meet their steam needs. Since steam provided under Rate 3B is produced at the Perry K plant, the FAC Rider is applicable to Rate 3B. Mr. Jones also stated that Citizens serves one customer under a customer-specific contract. Because this customer's contract rate is adjusted by the FAC factor, Mr. Jones included it in the analysis of the difference between the Existing Agreement and Proposed Agreement described above. (*Id.* at 5-7)

Mr. Jones next discussed the impact on customer bills if Covanta stopped supplying steam to Citizens. Consistent with Mr. Dillard's testimony regarding alternatives to steam purchases from Covanta, Mr. Jones's analysis in this regard was based on replacing the steam purchased from Covanta with an increase in the amount of steam produced at the Perry K plant using natural gas as a fuel source. Mr. Jones again based his analysis of replacing steam purchases from Covanta with natural gas on the

data submitted in Citizens' most recent FAC filing. Based on Mr. Jones's analysis, replacing steam purchases from Covanta with natural gas would result in an FAC rate that is $0.46359 per therm higher than the per therm FAC rate Citizens proposed in its most recent FAC filing. This would result in an estimated increase of 34.63% and 53.17% for Rate 1 and Rate 2 customer bills, respectively. (*Id.* at 8-11)

4. Large Volume Customers' Case-in-Chief Testimony. Mr. Nicholas Phillips, Jr. testified on behalf of the Large Volume Customers. Mr. Phillips had a number of concerns about the Proposed Agreement.

Mr. Phillips stated that Citizens has sufficient capacity to supply steam from coal and coke oven gas during many months of the year. (IG Ex. NP 1 at 6) He testified that during the winter period, however, Citizens operates most efficiently by purchasing steam to minimize its peak load generation requirements that use natural gas as a fuel source. (*Id.*) He testified that Citizens and ratepayers would be best served by having requirements for steam that obligate Covanta to supply minimum amounts during the winter period of November through March. Mr. Phillips stated that under the Proposed Agreement, Covanta can choose to provide virtually its entire annual obligation during the non-crucial months of the year. (*Id.*)

Mr. Phillips testified that the Proposed Agreement obligated Citizens to an annual take-or-pay provision, without a requirement for Covanta to supply minimum amounts of steam during the crucial winter period. (*Id.*) He stated that with a take-or-pay obligation, Citizens should require more safeguards and require the take-or-pay obligation be in accord with its needs, which are for purchased steam during the winter period. (*Id.* at 5) Mr. Phillips testified that Citizens' current contract requires Covanta to provide a certain quantity of steam during the months of November through March. (*Id.* at 5-6) He testified that the Proposed Agreement has no such explicit minimum winter obligations. (*Id.* at 6) Mr. Phillips stated that the introduction of a take-or-pay obligation likely caused Citizens to minimize the obligation to take steam. (*Id.*)

Mr. Phillips testified that the Winter Incentive Premium provides Covanta with an incentive to provide therms during winter months but not an obligation to provide steam during the crucial winter period. (*Id.* at 7) He stated that Citizens must pay a premium to Covanta for all usage during the winter period and Covanta may be obligated to refund all or part of the premium after application of the availability formula. Mr. Phillips had concerns regarding the incentive mechanism. He stated there is no explicit example showing a tested capacity rating of the units used to calculate the availability factor. He further testified that the Proposed Agreement provides that the formula can be adjusted due to the unavailability of waste-to-fuel to the Covanta facility as well as other reasons. In other words, Mr. Phillips testified that the availability factor could be adjusted to provide an incentive payment even if the availability criteria are not met by Covanta. (*Id.*)

Mr. Phillips testified that a more direct way to ensure winter deliverability would be to establish a winter minimum requirement with an incentive payment for amounts above that requirement. (*Id.* at 8) He testified that if a take-or-pay obligation is part of

the Proposed Agreement, it is crucial that a requirement be established for the steam to be provided during the winter months with minimum obligations for those months. (*Id.*)

Mr. Phillips testified that take-or-pay obligations can lead to problems associated with payments without delivery of the product. He stated paying a demand payment in exchange for having the ability to dispatch a certain amount of reserved capacity was a better mechanism. Under the Proposed Agreement, however, Mr. Phillips stated Citizens would make a demand payment and also would have an annual take-or-pay obligation, but would receive no firm commitment on the volumes of steam it requires to displace natural gas during the winter period. Mr. Phillips testified that the proposed take-or-pay provision imposes a business risk for contracting for too much purchased steam. He testified that this risk must be balanced against the risk to ratepayers of not having adequate purchased steam in the winter period causing the production of steam with natural gas. He testified that the risk to ratepayers should not be subordinate to the business risk imposed by the proposed take-or-pay obligation in the Proposed Agreement. (*Id.*)

Mr. Phillips testified that the Proposed Agreement contains escalators for the price of Base Steam, the Winter Incentive Premium and the O&M charge. (*Id.* at 9) He testified that the escalator provisions have a base point of February, 2005, and escalate after that date. Mr. Phillips observed that the definition for the Base/Winter rate escalator indicates that the escalator can only increase. (*Id.*) He further testified that if the example on Exhibit A controls instead of the Proposed Agreement's definition, that the escalator can only decrease 5% from the previous year. (*Id.* at 10) Mr. Phillips also noted that Citizens had failed to provide a calculation of how the escalators would have adjusted the price since February 2005. (*Id.*) Mr. Phillips was also concerned that the escalation factors in the Proposed Agreement could keep the price of purchased steam at high levels, even if coal prices decrease. In this situation, Mr. Phillips testified Citizens could be faced with purchasing steam at a higher price rather than operating its system on a least cost dispatch basis. (*Id.*)

Mr. Phillips testified that Citizens' estimates of the costs of the Proposed Agreement had changed significantly between its 30-day filing and its testimony in this proceeding. (*Id.* at 11) Mr. Phillips testified that Citizens' 30-day filing indicated that the FAC would be increased by 8.495 cents per therm as a result of the Proposed Agreement's costs; whereas in testimony in this case, Citizens projected the increase would be 4.687 cents per therm. Mr. Phillips found it troubling that Citizens had been unable to provide a clear cost estimate of the expected cost increases and that it had failed to provide any calculation of the expected increases as a result of the escalators. (*Id.*)

Mr. Phillips then addressed Mr. Jones' example of displacing the entire Covanta steam purchases by natural gas. (*Id.* at 12) Mr. Phillips testified that Citizens should be using coal as a replacement cost instead of natural gas. Mr. Phillips testified that because Covanta has no explicit obligation to provide steam in the winter, Mr. Jones' testimony illustrates a scenario which could occur even if the Commission were to approve the Proposed Agreement. Because the Proposed Agreement has a thirty month termination provision, Mr. Phillips testified that Citizens should have a plan in place to produce steam

on an economic basis if Covanta exercises its option to terminate the contract. (*Id.* at 12-13) He also stated that currently Citizens has indicated that it has no plan developed to replace purchased steam from Covanta. (*Id.* at 13)

Mr. Phillips testified that he also had concerns regarding the Force Majeure Surcharge and Change in Law provisions in the Proposed Agreement. He stated that Change in Law is broadly defined and that Covanta may charge Citizens its aggregate capital costs over one million dollars and any operating cost increases associated with any Change in Law. He testified that the Force Majeure Surcharge assumes that Covanta borrows all of its estimated Change in Law costs on day one and applies an undefined rate of interest to them. (*Id.*)

Mr. Phillips testified that the Change in Law provisions in the Proposed Agreement were at odds with sound ratemaking principles. Mr. Phillips testified that steam ratepayers should not be obligated to pay for changes in laws concerning trash handling, trash storage, or other items that have to do with the responsibilities of Covanta. (*Id.* at 13-14) He also testified that surcharges should not be based on estimates but actual expenses from a plan that requires an approval from an agency such as the Commission. (*Id.* at 14) Mr. Phillips concluded that the Proposed Agreement shifts the risks of the waste-to-steam operation to ratepayers and subjects ratepayers to surcharges based on estimates of compliance. He also testified that the recovery mechanism should not be based on the assumption that Covanta borrows all of the capital and increased operating costs it will incur over a twenty year term on day one and that an undefined interest rate should not be applied to this imaginary loan. He stated that the recovery mechanism should not be more favorable than the standard regulated utilities have to follow under Indiana law, which at least require the Commission to find substantial documentation that the expected costs and that schedule for incurring those costs are reasonable and necessary. (*Id.*)

Mr. Phillips testified that the Agreement is also contingent on Covanta reaching an agreement with the City of Indianapolis, which is not in place. (*Id.* at 2) He testified that if early approval of the contract by the IURC provides benefits to Covanta, those benefits should be considered by the Commission in a review of the Proposed Agreement. (*Id.*)

Mr. Phillips testified that many of the costs related to charges to be imposed under the Proposed Agreement are not appropriate for recovery through an FAC rider. (*Id.* at 14) Mr. Phillips stated that cost related to demand charges, O&M charges, Changes in Law, or take or pay charges are more suitable for recovery in base rates after Commission investigation, deliberation and approval. (*Id.*)

Mr. Phillips recommended that the Proposed Agreement not be approved unless the problems enumerated in his testimony were resolved, including: (1) the take or pay provision and implications involving operating in a least cost manner; (2) lack of winter supply obligations; (3) poorly designed winter incentive mechanism; (4) one-way escalators; (5) pass-through of Change in Law costs in a manner that is at odds with

sound ratemaking principles; (6) Covanta's option not to enter into the contract unless it reaches an agreement with the City of Indianapolis. (*Id.* at 15) Mr. Phillips further recommended that Citizens should not be allowed to include charges in the FAC that are normally a part of base rates. (*Id.*) In the alternative, if the Proposed Agreement is approved without resolving these issues, Mr. Phillips recommended that the Commission not provide for the recovery of costs in Citizens' FAC. (*Id.* at 16) Mr. Phillips' final recommendation was that the Commission require that Citizens develop a viable alternative plan to replace the steam supply from Covanta. *(Id.)*

5. OUCC's Case-in-Chief Testimony. Ms. Joan M. Soller, Director of the OUCC's Electric Division, testified on behalf of the OUCC.

Ms. Soller stated that the OUCC believes that cost-effective, nonsubsidized renewable energy sources, such as the IRRF, favorably enhance the environment and indicate responsible stewardship. She further stated that the OUCC believes that long-term contracts can be an effective way to mitigate risks due to price and supply volatility if risks are equitably shared between buyers and sellers. However, Ms. Soller opined that the price adjustment mechanisms and force majeure provision in the Proposed Agreement unduly expose Citizens and its ratepayers to potentially volatile increasing costs. She also expressed her belief that many of the costs to be incurred under the Proposed Agreement should more appropriately be recovered in base rates. She recommended that a review to separate costs to be recovered in base rates from those to be recovered through the FAC Rider and to determine cost allocations should occur before the Proposed Agreement is implemented in 2008. (Public's Exh. 1 at 3-4)

In response to questions from the Presiding Officers at the hearing, Ms. Soller clarified her ultimate recommendation regarding approval of the Proposed Agreement, stating, "Given the testimony that was presented today by Mr. Tracy, if the OUCC is able to review the costs with subsequent FACs, then, I believe the contract should be approved." (Tr. at A-97, lines 14-17) She reiterated the OUCC's position that certain costs to be incurred under the Proposed Agreement should be recovered through base rates. (*Id.* at A-98, lines 1-2)

Ms. Soller also testified regarding Citizens' long-range planning. She suggested that Citizens complete an Integrated Resource Plan ("IRP") similar to those used by electric utilities pursuant to the Commission's rules governing IRPs. (Public's Exh. 1 at 5).

6. Petitioner's Rebuttal Testimony. In its rebuttal testimony, Citizens responded to Mr. Phillips's criticisms of the Proposed Agreement. Citizens' rebuttal testimony also addressed the Large Volume Customers' and the OUCC's suggestions regarding resource planning. Mr. Jones's rebuttal testimony addressed issues raised by the Large Volume Customers regarding the comparisons presented in his case-in-chief testimony quantifying the projected impact of the Proposed Agreement. Mr. Jones also responded to the Large Volume Customers' and OUCC's suggestion that certain charges

imposed under the Proposed Agreement should not be recovered through Citizens' FAC Rider.

Mr. Tracy first responded to Mr. Phillips's recommendation that the Proposed Agreement not be approved until the "significant problems" enumerated in his testimony are resolved. Mr. Tracy rejected Mr. Phillips's recommendation that the Proposed Agreement be disapproved because, in Mr. Tracy's opinion, the Proposed Agreement has no significant problems. Rather, Mr. Tracy testified that Mr. Phillips had simply substituted his judgment for the judgment exercised by the Citizens employees who were involved in the arms-length negotiations that led to the Proposed Agreement. (Pet. Exh. F at 2)

Mr. Tracy emphasized that during the negotiations with Covanta, Citizens was represented by a highly competent team of employees and attorneys. He stated that the Citizens employees principally involved in the negotiation have approximately 100 years of combined experience in the steam utility business and were supported by other employees with another 45 years of combined experience. Mr. Tracy pointed out that Mr. Dillard has been involved in managing the steam business's relationship with Covanta since its inception in 1986 and that Mr. Tracy himself has had overall responsibility for that relationship since 1998. (*Id.* at 2-3)

Mr. Tracy testified that the negotiation of the Proposed Agreement was a very lengthy negotiation between two unaffiliated commercial entities. He stated that at times the negotiations were very tense and, at one point, broke down completely. In the end, Mr. Tracy reiterated his belief that Citizens was successful in achieving its objectives, which were focused on price, reliability, quality and optimizing Citizens' utilization of the Covanta steam supply to meet its customers' needs at the lowest cost reasonably possible. (*Id.* at 3)

Mr. Tracy cited Mr. Phillips's criticism of the minimum annual supply and purchase obligation the parties negotiated as an example of Mr. Phillips's substituting his judgment for that of the employees who negotiated on behalf of Citizens. Mr. Tracy pointed out that Mr. Phillips stated in his testimony that he is "not in favor of take-or-pay obligations"; demonstrating a personal bias against the manner in which Citizens chose to address that issue. Mr. Tracy also disagreed with Mr. Phillips's opinion that Citizens should have agreed to minimum monthly purchase obligations during certain months. Mr. Tracy testified that, in Citizens' judgment, agreeing to minimum monthly purchase obligations as suggested by Mr. Phillips would not be in the best interests of Citizens' customers because it would be more likely to lead to a requirement to purchase more steam in a given month than Citizens may need. Instead, during the negotiations, Citizens chose to negotiate for flexibility regarding how its annual purchase obligation will be utilized throughout the year based on is operational needs and the weather-sensitive needs of its customers. (*Id.* at 6)

Mr. Tracy further testified that he does not believe a renegotiation of the aspects of the Proposed Agreement criticized by Mr. Phillips would result in a more favorable

agreement to Citizens and its customers. That is true, according to Mr. Tracy, because Citizens does not agree that all of the changes proposed by Mr. Phillips would benefit Citizens and its customers. As an example, Mr. Tracy noted his disagreement that the minimum monthly purchase requirements suggested by Mr. Phillips would be in the best interests of Citizens and its customers. (*Id.* at 4)

Moreover, Mr. Tracy explained that he does not believe Covanta will be willing to make any changes it perceives as significant concessions without insisting on equally significant corresponding changes that it perceives as favorable to Covanta, including the very favorable prices Citizens was able to negotiate. Mr. Tracy opined that Mr. Phillips did not appear to appreciate the fact that the various aspects of the Proposed Agreement were not negotiated in isolation from one another and that Covanta will evaluate the effect any proposed changes will have on the overall economics of the Proposed Agreement, as written. (*Id.*)

Mr. Tracy expressed his concern that if the Proposed Agreement is disapproved, that Covanta may terminate it and convert the IRRF to an electric generating plant used to produce electricity to be sold in the Midwest ISO's wholesale electricity markets. He testified that if that happened, Citizens and its steam customers will lose a very economic and reliable source of steam. Mr. Tracy explained that the vast majority of Covanta's waste to energy facilities in other states generate electricity and that he is convinced that Covanta has the capability and expertise to convert the IRRF to an electric plant if it concludes a steam supply agreement on acceptable terms is not possible. (*Id.* at 5) During cross examination of Mr. Tracy, the OUCC introduced into evidence a letter Covanta sent Citizens in June 2006 that states:

> As you know, we have always maintained the position that if we can not reach a steam sale agreement, our alternative use of the steam would be to sell power into the MISO market. Since our initial assessment of the local power market and the development of the associated economic analysis for the electricity sale option, our estimated MISO rates have changed from $36/MWh to a current estimated assessment of $50 to $60/MWh.

(Public CX Exh. CX-1)

Mr. Tracy also addressed the concerns raised by Mr. Phillips regarding the Proposed Agreement's condition precedent requiring Covanta to negotiate an acceptable service agreement with the City of Indianapolis. In his initial rebuttal testimony, Mr. Tracy stated that he was not concerned about Covanta's ability to satisfy that condition. In his supplemental rebuttal testimony, Mr. Tracy testified that, in fact, Covanta sent Citizens a letter stating that the Proposed Agreement's condition precedent regarding Covanta's agreement with the City will be deleted in its entirety upon Commission approval of the Proposed Agreement. Thus, upon Commission approval, the Proposed Agreement will be effective with a term commencing on December 1, 2008. (Pet. Exh. I at 2; Pet. Exh. I-1)

In response to Mr. Phillips's criticism of the annual 29 million therm purchase and sale obligation Citizens and Covanta negotiated, Mr. Dillard testified that the obligation is reciprocal. He reiterated that if Covanta fails to satisfy its annual delivery obligation, it will have to refund a portion of the Demand Charge that Citizens has paid for that year. Mr. Dillard also pointed out that the 29 million therm minimum obligation is well below the annual amount Citizens has historically purchased from Covanta. Mr. Dillard testified that for the last five years, Citizens has purchased an annual average of 42 million therms of steam, 32 million of which would qualify as Base Steam under the Proposed Agreement. Thus, Citizens' minimum purchase requirement under the Proposed Agreement is approximately 90% of its average annual purchases of Base Steam during the past five years. (Pet. Exh. G at 3)

Mr. Dillard also took issue with Mr. Phillips's criticism of Citizens' decision to avoid monthly minimum purchase requirements, agreeing with Mr. Tracy that such monthly minimums were not in Citizens' or its customers' best interest. Mr. Dillard testified that Citizens could not have insisted that Covanta agree to a minimum supply obligation without itself agreeing to a minimum monthly purchase requirement. Based on its judgment and experience with Covanta, Citizens did not consider it advisable to agree to minimum monthly purchases. Rather, Mr. Dillard stated that Citizens considered it more important, and had as a major goal in its negotiation with Covanta, to maintain flexibility regarding its utilization of its annual steam purchases from Covanta. Mr. Dillard emphasized the importance of that flexibility, explaining that a minimum monthly purchase obligation would diminish Citizens' ability to match its purchases with its weather-sensitive load and increase the risk of purchasing steam it does not need. (*Id.* at 4)

Mr. Dillard also disagreed with Mr. Phillips's testimony that without a minimum monthly supply obligation during the winter period, Covanta may satisfy its 29 million therm annual supply obligation without delivering steam in the winter months. Mr. Dillard testified that during his eighteen years of experience in dealing with Covanta and its predecessor, neither has attempted to limit steam deliveries to the warmer months of the year. Mr. Dillard presented testimony that showed that Covanta's deliveries during the winter months have been substantial, approximately 40% of the total annual volumes of steam delivered from the years 2001 to 2005. Furthermore, Mr. Dillard stated, the Winter Incentive Premium established in the Proposed Agreement gives Covanta a significant incentive to increase steam deliveries during the winter months. (*Id.* at 6)

Mr. Dillard next took issue with Mr. Phillips's criticisms of the Winter Incentive Premium negotiated by Citizens and Covanta. Mr. Dillard first pointed out that there is no need for the Proposed Agreement to provide an example showing the tested capacity rating of the Covanta units used to calculate the Winter Incentive Premium, as suggested by Mr. Phillips. This is because the availability factor is based on the amount of time the Covanta units are available for use, not their output capacity. Mr. Dillard also disagreed with Mr. Phillips's objection to the fact that the availability factor used to determine whether Covanta must refund a portion of the Demand Charge can be adjusted when circumstances beyond Covanta's control have affected its ability to supply steam. Mr.

Dillard testified that Citizens found it reasonable and consistent with the concept of the Winter Incentive Premium to provide Covanta relief when circumstances beyond its control have affected the IRRF's availability. Additionally, Mr. Dillard pointed out that such adjustments, the likelihood of which Mr. Dillard believes are remote, cannot be made without Citizens' involvement. (*Id.* at 7)

Mr. Dillard then addressed Mr. Phillips's conclusion that the Demand Charge Citizens and Covanta negotiated is unreasonable. Mr. Dillard first pointed out that the Demand Charge, which is $1.6 million per year, will not increase during the 20-year term of the Proposed Agreement. Mr. Dillard explained that, during its negotiation with Covanta, Citizens initially argued against inclusion of the Demand Charge in the Proposed Agreement, but that Covanta would only agree to eliminate it if Citizens agreed to a substantial increase to the Base Rate. Based on its expected purchases of more than 29 million therms annually, Citizens concluded that a substantial increase to the volumetric Base Rate charge would have caused it to incur more than the annual $1.6 million Demand Charge. Finally, Mr. Dillard pointed out that, contrary to Mr. Phillips's testimony, there are performance requirements associated with the Demand Charge and that if Covanta fails to meet its annual supply obligation, it must refund a portion of the Demand Charge paid by Citizens. (*Id.* at 8-9)

Mr. Dillard also disagreed with Mr. Phillips's testimony regarding the price adjustment mechanism that Citizens and Covanta negotiated. First, he testified that contrary to Mr. Phillips's testimony, adjustments to the Base Rate and Winter Incentive Premium can be reduced as well as increased based on the formula set forth in Exhibit A of the Proposed Agreement. (*Id.* at 9-10). At the hearing, Mr. Tracy stated that Covanta had confirmed its agreement with Citizens' interpretation of the price adjustment mechanisms, and that the Base Rate and Winter Incentive Premium can be reduced by as much as five percent annually. (Tr. at A-26, lines 23-26, A-27, lines 1- 8)

Mr. Dillard also addressed Mr. Phillips's concerns regarding the time period used to establish the baseline costs that the price adjustment mechanisms will be applied to. He explained that the February and March 2005 time period was a compromise between the parties reflecting the fact that energy costs were steadily rising during the time period the Proposed Agreement was being negotiated. Finally, Mr. Dillard responded to Mr. Phillips's concern that the prices Citizens will pay when the Proposed Agreement becomes effective are not "explicitly" known. Mr. Dillard explained that rather than speculating about what price would be reasonable three years into the future, Citizens and Covanta instead agreed to a baseline price that would be adjusted throughout the Proposed Agreement's twenty-year term. In Mr. Dillard's view, that aspect of the Proposed Agreement is no different than any long-term supply arrangement where the prices to be charged in the future are not "explicitly" known. Mr. Dillard did provide an exhibit showing the possible cost of steam under the Proposed Agreement during 2009, the first full year that the Proposed Agreement will be in effect, assuming a hypothetical price escalation of three percent annually. (Pet. Exh. G at 10 – 11; Pet. Exh. G-3)

Mr. Dillard also took issue with Mr. Phillips's testimony regarding the Proposed Agreement's change in law provisions. He disagreed that changes in law affecting the processing of the fuel (*i.e.*, trash) Covanta uses to produce steam cannot legitimately be reflected in the price Citizens pays for steam. Furthermore, Mr. Dillard explained that Covanta will be responsible for the first $1 million of costs incurred to comply with any change in law and that Citizens' maximum aggregate exposure to any change in law costs is the total amounts paid by Citizens under the Proposed Agreement during the year proceeding the year in which the change in law occurred. Mr. Dillard also testified that Citizens' exposure to any change in law costs is further limited by its ability to terminate the Proposed Agreement with 30 months prior written notice. He also addressed Mr. Phillips's concern regarding the use of estimates to determine the charges Citizens will incur as the result of a change in law, stating that the Proposed Agreement provides for a true up mechanism. (Pet. Exh. G at 13 – 15)

Citizens also presented rebuttal testimony in response to the Large Volume Customers' and OUCC's testimony suggesting that Citizens' resource planning is inadequate.

Mr. Tracy opined that Mr. Phillips's and the OUCC's recommendations regarding resource planning are beyond the scope of this proceeding. Nevertheless, Mr. Tracy addressed the Large Volume Customers' and OUCC's testimony regarding resource planning. Mr. Tracy testified that Citizens has conducted analysis in consideration of several alternatives to the IRRF and that any analysis beyond that already completed would be premature at this point. Mr. Tracy did state that Citizens would be willing to discuss its long-term resource plan with the OUCC and Large Volume Customers and incorporate suggested improvements into its planning process. (Pet. Exh. F at 6-10)

Mr. Dillard responded in more detail to the Large Volume Customers' and the OUCC's testimony regarding resource planning. Mr. Dillard described the various alternatives to steam purchases that Citizens has considered and agreed with Mr. Tracy that it would be premature to plan for pursuing one of those options while Citizens expects to continue steam purchases from Covanta. (*Id.* at 16) Mr. Dillard also took issue with Ms. Soller's recommendation that Citizens complete every five years an Integrated Resource Plan similar to the IRPs filed by electric utilities. He testified that requiring Citizens to complete an IRP similar to electric utilities would be unnecessary, costly and potentially wasteful. (*Id.* at 18-19)

Mr. Jones responded to issues raised in Mr. Phillips's testimony regarding the comparisons presented in Mr. Jones's case-in-chief testimony to quantify the projected impact of the Proposed Agreement. He also discussed why it is appropriate for Citizens to recover through its FAC Rider costs related to the Demand Charge and O&M Charge.

Mr. Jones first explained the differences between the projections Citizens provided in its original 30-day filing requesting approval of the Proposed Agreement and the analysis presented in Mr. Jones's case-in-chief testimony. Mr. Jones stated that the first and most obvious difference is the different time periods and assumptions upon

which the different projections are based. The primary difference relates to the use of data from Citizens' FAC05 filing for the first projection and the use of data from Citizens' FAC06 filing for the projection shown in Mr. Jones's case-in-chief testimony. Mr. Jones then explained other differences between the two projections, concluding that the projections presented in his case-in-chief testimony are correct and reasonable. (Pet. Exh. H at 1, 2-4)

Citizens also took issue with Mr. Phillips's and Ms. Soller's contentions that certain charges that will be imposed under the Proposed Agreement should not be recovered through the FAC Rider. Mr. Jones emphasized that all costs incurred to purchase steam from Covanta that is supplied to Citizens' Rate 1, Rate 2 and Rate 3B customers currently are recovered through the FAC Rider. Mr. Jones testified that, in his view, simply because certain costs have been categorized differently or renamed in the Proposed Agreement is not a reason to now exclude them from recovery under the FAC Rider. Indeed, Mr. Jones pointed out, such a result would be contrary to the FAC Rider, which provides that the "average cost of purchases from the Indianapolis Resource Recovery Project of displaced net steam to mains" (without excluding any particular charge or category of costs) will be included in the estimated cost of fuel for a particular FAC period. Mr. Jones stated that costs related to the Demand Charge, O&M Charge and other charges established in the Proposed Agreement are directly attributable to the purchase of steam from Covanta. Mr. Jones further testified that any fuel purchased by a utility has a certain level of O&M (as well as other costs) included in the price. As an example, Mr. Jones testified that demand costs, capacity costs and reservation fees are all considered gas costs that are recoverable through Indiana gas utilities' gas cost adjustment mechanisms.

Mr. Jones also pointed out that the Commission has long allowed the recovery of certain wholesale electricity purchases through electric utilities' fuel cost adjustments, while recognizing that those purchases are priced on a commodity basis with no unbundling of the various components (including O&M) that make up the price. Finally, Mr. Jones explained that the Demand Charge will not increase over the life of the Proposed Agreement. Therefore, if Citizens purchases more than 29 million therms annually (which Citizens expects to do) the Demand Charge will save customers money. Mr. Jones provided an example of this savings based on Citizens' average annual purchases, which showed the proposed annual Demand Charge would be $764,500 less than the increased cost resulting from applying a volumetric per therm rate designed to spread the $1.6 million Demand Charge over the 29 million therm minimum obligation. Mr. Jones opined that it would be unfair to exclude the Demand Charge from the FAC Rider when it was negotiated for the very purpose of reducing the amount of costs that would be passed through to customers under that rider. (*Id.* at 5-7)

7. **Discussion and Findings.** The Petitioner has requested that the Commission (i) find reasonable and approve a Steam Purchase Agreement between Citizens and Covanta and (ii) authorize Citizens to recover the retail Jurisdictional costs incurred under the Agreement through Petitioner's Standard Contract Rider No. 1, Fuel Cost Adjustment.

A. Reasonableness of Proposed Agreement. The standard by which we review the reasonableness of the Proposed Agreement has been established by the Indiana General Assembly, which has declared, "It is the policy of this state to encourage the development of alternate energy production facilities . . . in order to conserve our finite and expensive energy resources and to provide for their most efficient utilization." Ind. Code § 8-1-2.4-1. Citizens is a "steam utility" and the IRRF is an "alternate energy production facility" within the meaning of Indiana's laws governing steam utility purchases from alternate energy production facilities. *See* Ind. Code §§ 8-1-2.4-2(f), 8-1-2.4-2(b)

Pursuant to Ind. Code § 8-1-2.4-4(f), a steam utility and the owner of an alternate energy production facility "may enter into a long term contract in accordance with [Ind. Code § 8-1-2.4-4(a)] and may agree to rates for purchase and sale transactions." Under Ind. Code § 8-1-2.4-4(a) the Commission must find that the terms and conditions of such a contract:

(A) Are just and economically reasonable to the corporation's ratepayers;

(B) Are nondiscriminatory to alternate energy producers, cogenerators, and small hydro producers; and

(C) Will further the policy stated in Ind. Code § 8-1-2.4-1.

Mr. Tracy testified that the IRRF offers an environmentally sound solution to the waste disposal needs of the Indianapolis community and that Citizens' purchases of steam produced at the IRRF furthers the policy of the State to encourage the development of alternate energy production facilities, including waste management and refuse derived facilities. (Pet. Exh. A at 7) No party disputed that testimony or raised any issue that the Proposed Agreement's terms and conditions are discriminatory to other alternate energy producers, cogenerators or small hydro producers. Consequently, we find that the Proposed Agreement satisfies the requirements of Ind. Code § 8-1-2.4-4(a)(1)(B)-(C)

Thus, the remaining determination to be made is whether the Proposed Agreement is "just and economically reasonable" to Citizens' ratepayers within the meaning of Ind. Code § 8-1-2.4-4(a)(1)(A). In making that determination we strive to avoid second-guessing Citizens' negotiating strategy or speculating regarding the myriad possibilities that Citizens and Covanta could have agreed to. *See, e.g., Public Serv. Co. of Ind., Inc.*, 1990 Ind. PUC LEXIS 108, *250 (Cause No. 37414-S2, Apr. 4, 1990) ("we reject [the] invitation to link these agreements together and second guess the terms of the agreements based upon speculation.") Rather, our charge under the statute is to determine whether the agreement that has been presented to us is just and economically reasonable to Citizens' ratepayers.

Ind. Code § 8-1-2.4-4(c) identifies factors to be considered in setting the rates for purchase from a facility such as IRRF. It is therefore informative to consider the

Proposed Agreement in terms of how it might compare to such pricing absent an agreement as Citizens could conceivably have been statutorily required to make purchases under such rates. The evidence shows that if Citizens is no longer able to purchase steam from Covanta it will need to pursue other more costly sources of steam in the short-term and, in the long-term, likely need to make significant capital investments. The general avoided cost basis of rate setting embodied in Ind. Code § 8-1-2.4-4(c) would reflect consideration of such other sources of steam.

The evidence supports that the Proposed Agreement is the result of arms length negotiation between two unaffiliated parties. We take note of Citizens' testimony that the various aspects of the Proposed Agreement were not negotiated in isolation from one another. Similarly, although we discuss individual provisions separately below, we will consider the evidence presented and review the justness and economic reasonableness of the Proposed Agreement as a whole.

There were fundamental disagreements between the Large Volume Customers and Citizens regarding how purchase and supply obligations under the Proposed Agreement should be structured. Large Volume Customer witness Mr. Phillips testified that Citizens should have insisted that Covanta agree to minimum monthly supply obligations for the winter months, which Mr. Phillips defined as November through March. Mr. Dillard explained that Covanta would not have agreed to a minimum monthly supply obligation unless Citizens agreed to a reciprocal purchase obligation. In order to maintain flexibility regarding its use of steam purchased from Covanta, Citizens instead chose to negotiate an annual purchase and supply obligation that would allow it to better match purchases with its weather-sensitive load. We note that the 29 million therm annual supply obligation that Citizens agreed to is well below the annual volume of steam that Covanta has historically delivered to Citizens. With respect to Mr. Phillips's concern that Covanta supply an adequate amount of steam during the winter months, the Proposed Agreement's Winter Incentive Premium is a reasonable approach to addressing that concern. Additionally, both Mr. Dillard and Mr. Tracy stated it would be difficult for Covanta to meet its annual supply obligation if it limited steam deliveries to non-winter months.

The Proposed Agreement contains a Demand Charge to which Mr. Phillips objected. Citizens concluded that a substantial increase to the volumetric Base Rate charge would have caused it to incur annual costs that exceed the annual $1.6 million Demand Charge, which will not increase during 20-year term of the Proposed Agreement. The constant Demand Charge also serves to levelize a portion of Citizens' payments to Covanta, which provides for the additional benefit of reducing price volatility for Citizens' customers.

The Proposed Agreement's price adjustment mechanisms used to adjust the Base Rate and Winter Incentive Premium is different than the price adjustment mechanism in the existing agreement between Citizens and Covanta. The new mechanism should reduce price volatility by adding other indices, including CPI, to the methodology used to adjust the price of steam. Moreover, we note that the pricing Citizens negotiated is

favorable relative to the prices Covanta's affiliates charge for steam at other facilities. In the June 2006 letter Covanta sent to Citizens, which the OUCC introduced at the hearing, Covanta stated that it "currently sells steam at other Covanta facility locations across the country" and the "typical contractual rates for those facilities ranges between $9 - $20/ M-lb." (Public CX Exh. C-X-1) By comparison, based on the various charges initially established in the Proposed Agreement, the overall rate initially set in the Proposed Agreement for steam purchases is $5.37/M-lb.

Mr. Phillips raised a number of objections to the change in law provision and Citizens' willingness to accept some of the risk that the IRRF's costs could increase as a result of a change in law. The change in law provision appears to provide an illustration of Citizens' efforts to balance the costs and risks of one aspect of the Proposed Agreement against the costs and risks of other aspects of the Proposed Agreement. On redirect examination at the hearing, Mr. Tracy was asked how the base price of steam would have been affected if Citizens had not agreed to bear some of the risk for future changes in law. He answered:

> It would be my opinion that the base price would have been higher than it is now. [The change in law provision] was negotiated in the contract because throughout the entire contract, you're constantly trading off risk for price, and that is a risk that Covanta felt was real. They established a very significant price at the beginning of the negotiations. So, my opinion would be that the base price, if didn't have that, would be higher than it is today.

(Tr. at A-62-A-63)

Moreover, as Mr. Dillard testified, Citizens was able to limit its exposure under the change in law provision and still achieve the base price concessions Mr. Tracy discussed. Covanta is responsible for the first $1 million of costs incurred to comply with any change in law affecting the IRRF. Additionally, Citizens' maximum exposure to costs incurred as a result of a change in law is the total amounts paid by Citizens under the Proposed Agreement during the year preceding the year in which the change in law occurred. Since the change in law costs will be amortized over ten years, Citizens' and its customers' maximum exposure to an increase in the price paid to Covanta as a result of a change in law is a ten percent increase. Also, as Mr. Dillard explained at the hearing, the potential impact to customers is further mitigated because Covanta steam purchases represent less than half of Citizens' steam supply. Finally, Citizens' exposure is further limited by its ability to terminate the Proposed Agreement with 30 months prior written notice.

Mr. Phillips suggested that we consider any benefit that this Commission provides Covanta regarding its negotiation of a contract with the City of Indianapolis. At the hearing, Mr. Tracy testified that Covanta has agreed to waive the condition precedent regarding its negotiation of a contract with the City, upon Commission approval of the

Proposed Agreement. Accordingly, our approval of the Proposed Agreement is the only condition precedent to its effectiveness.

Based on the evidence presented and in reviewing the justness and economic reasonableness of the Proposed Agreement as a whole we find that the Proposed Agreement is just and economically reasonable to Citizens' steam customers. Therefore, we find that the Proposed Agreement should be and hereby is approved.

B. Recovery of Costs of the Proposed Agreement. Having found the Proposed Agreement just and economically reasonable to Citizens' ratepayers, we now address Citizens request for cost recovery authorization for costs incurred under the Proposed Agreement from those ratepayers.

In its Petition, Citizens requested authority to recover the retail jurisdictional costs incurred under the Proposed Agreement through its FAC Rider. During cross-examination, Mr. Tracy emphasized that the Proposed Agreement is an extension of the Existing Agreement "under which all of the fuel costs associated with the Covanta contract are recovered under a fuel rider." (Tr. at A-10 lines 14-17) However, the Commission does not agree that the Proposed Agreement is an extension of the Existing Agreement. The Proposed Agreement is a newly negotiated vehicle to secure a steam supply for Citizens. Notwithstanding, the historical treatment of sufficiently similar terms under the Existing Agreement certainly provides experience to inform the decisions we make today.

The Monthly Steam Payment of the Proposed Agreement includes charges identified as Base Steam Payment, Summer Steam Payment, Secondary Steam Payment, Demand Charge, O&M Charge, Force Majeure Surcharge, and Incremental Chemical Costs. The charge amounts are assessed based on various mechanisms within the Proposed Agreement. OUCC witness Ms. Soller testified that "[m]any of these costs do not constitute fuel (e.g. O&M expenses, demand charges, force majeure components) and should be more appropriately recovered in base rates." (Public's Exh. 1 at 4) Citizens' witness Mr. Jones explained, demand costs, capacity costs and reservation fees are all considered gas costs that are recoverable through Indiana gas utilities' gas cost adjustment mechanisms. Additionally, Mr. Jones noted the Commission has long allowed the recovery of certain wholesale electricity purchases through electric utilities' fuel cost adjustments, while recognizing that the prices for those purchases include various cost components, including O&M.

The Commission authorized Citizens in Cause No. 41969-FAC 1 to use the methodology and follow procedures approved by the Commission in connection with the fuel cost adjustments requested in the past by the prior owner of the steam plant, Indianapolis Power & Light Company. We consider Citizens' steam supply fuel cost recovery request herein such that authorized treatment would be consistent with that reasonably afforded an electric generating utility for its fuel cost, therefore our treatment of the cost of fuel included in the cost of wholesale purchases of electricity is instructive.

The Commission specifically addressed the cost of fuel included in the cost of purchased electricity to be included in cost of fuel proceedings in Cause No. 33735-S1 [March 24, 1976]:

> *We find, therefore, that the only costs that should be included in the FAC are those costs allowed by Accounts 151 and 518 for generated and purchased power with identifiable fuel costs of the USOA, and the net energy costs of purchased power without identifiable Accounts 151 and 518 cost.* [pg.9]

A distinction was established between purchased power contracts with a single energy price and those with explicit non-fuel related charges, primarily demand and capacity but also non-fuel operation and maintenance. This distinction exists because of the inherent differences between the products; one has value as an energy product while the other has both energy and capacity components. Explicit non-fuel related costs are not ordinarily included in fuel costs in the FAC. The proposition that if implicit non-fuel related costs are contained in energy-only contracts which are included as a cost of fuel, then any explicit non-fuel related costs in purchase power contracts should also be included is contrary to ordinary Commission practice. Notwithstanding, a case-by-case consideration may warrant such non-standard treatment.

A primary characteristic of a cost we authorize herein as a fuel cost recoverable in the FAC is the connection between the charge amount and the product volume supplied. The Base Steam Payment, Summer Steam Payment and Secondary Steam Payment of the Proposed Agreement as described in Article V are each calculated by multiplying some charge rate by an "amount tendered". Conversely, the Proposed Agreement's Demand Charge and the O&M Charge contain no "amount tendered" component. In fact the Demand Charge is a set amount for the term of the Proposed Agreement. The O&M Charge escalates from a base amount based upon changes in the CPI Index and the Labor index. The Incremental Chemical Costs as described in Article XII(B) of the Proposed Agreement are based on the "monthly costs" of agreed to chemical changes. The amount of chemicals and therefore the related charge amount will likely change with the product amount tendered. Additionally, we recognize the chemical treatment required to maintain the quality of the steam energy product creates distinction from our electricity energy product comparison. The above charges differentiated by the noted primary characteristic provides for distinction among them. We note the Secondary Steam Payment of the Proposed Agreement relates to output from the IRRF purchased by Citizens which is used to generate electricity at the Perry K Plant and not to supply steam to its ratepayers. Citizens did not seek FAC Rider inclusion for this cost.

Upon considering the evidence in this proceeding and the Commission's ordinary treatment of similar costs we find that the retail steam Jurisdictional portion of the Base Steam Payment, Summer Steam Payment and Incremental Chemical Costs as described in Article V of the Proposed Agreement are eligible for recovery through Citizens FAC Rider. This finding does not limit or modify Citizens' requirement to demonstrate in future FAC proceedings that it has made every reasonable effort to acquire fuel and

generate or purchase steam or both so as to provide steam to its retail customers at the lowest fuel cost reasonably possible. The remaining charges of the Proposed Agreement are not eligible for recovery through this mechanism. Furthermore, we find that Citizens should make a compliance filing under this Cause which updates its Standard Contract Rider No.1 to reflect the specific findings herein, namely the language of item A(1)(b).

The Commission notes that Citizens agreed in a settlement agreement approved in Cause No. 41969-FAC03-S1 (January 23, 2004) to file a base rate case no later than January 1, 2007. The anticipated base rate case filing and timing of the implementation of the Proposed Agreement provides an opportunity for Citizens to update its base rates to include costs which are found to be known and measurable.

C. Resource Planning. The Commission recognizes that the steam supply from Covanta is a significant portion of Citizens supply portfolio. The Large Volume Customers and the OUCC testified that Petitioner has not done adequate planning to replace the Covanta steam supply and requested the Commission to order Citizens to conduct such planning. Additionally, the Large Volume Customers recommended that Citizens be required to explain whether it could buy coal at a lower price if it partnered with IPL.

In rebuttal testimony, both Mr. Tracy and Mr. Dillard testified that Citizens has done a sufficient amount of planning to prepare for the possibility of losing Covanta as a steam supplier. Mr. Dillard provided a discussion of the various alternatives to steam purchases that Citizens has considered. In addition, Mr. Dillard addressed coal partnering by testifying that Citizens and IPL did collaborate in connection with coal purchases, but when that arrangement expired in 2005, IPL was not interested in continuing it, despite Citizens interest in doing so. (Pet. Exh. G at 17)

Resource planning is a critical component to the long term financial health of a utility and the goal of lowest reasonable fuel costs for ratepayers. In particular, the fact that Citizens' steam supply relies heavily on a single external source heightens the need for reasonable evaluation of alternatives in long range planning. The specific planning needs of a steam utility differ from that of an electric utility in part because of the supply resources to be considered. The Proposed Agreement contains terms that would allow either party to terminate it with generally 30-months' notice. The aforementioned reliance on Covanta for economical steam supply demands that Citizens be proactive in assessing alternative supply options.

At the hearing, the OUCC introduced into evidence a document listing 11 areas pertaining to a long-term work plan for steam resource planning. Mr. Tracy stated at the hearing that Citizens would be willing to discuss any of those areas with the OUCC and the Commission. (Tr. at B-13, lines 16–18; B-14, line 14) Mr. Tracy also expressed Citizens' willingness to discuss resource planning in his prepared rebuttal testimony, stating:

> We would be happy to work with the Commission, the OUCC and our customers to make sure they understand our plans to meet the needs of our customers in the future. Of course, we are willing to listen and incorporate suggested improvements into our planning.

(Pet. Exh. F at 7)

The OUCC, as well as individual Citizens ratepayers, should have a reasonable opportunity to analyze and comment on the long range resource plan of the utility. Inclusion in the early stages of the planning process certainly fosters such opportunity and serves to both increase understanding and perhaps even options to be evaluated. The absence of Commission steam utility specific resource planning rules and the fact that Citizens is the lone steam utility regulated by this Commission lead us to conclude the interests of all parties would be reasonably and efficiently served by such an inclusive effort. Furthermore, such process should at least initially be an informal process. Therefore, we find that Citizens and the interested parties in this case should begin an informal process to address the long range resource portfolio of the utility. We decline at this time to order a formal process of reviewing Citizens resource planning. Nonetheless, the importance of the process dictates that the Commission stand ready should the informal process become unproductive.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. The Proposed Agreement, which we find to be just and economically reasonable to Citizens' retail steam ratepayers, is hereby approved.

2. Citizens is authorized to include costs incurred under the Proposed Agreement as discussed in Finding No. 7 above for consideration of recovery through its FAC Rider.

3. This Order shall be effective on and after the date of its approval.

LANDIS, SERVER AND ZIEGNER CONCUR; HARDY ABSENT:
APPROVED: DEC 2 8 2006

I hereby certify that the above is a true and correct copy of the Order as approved.

Brenda A. Howe

Brenda A. Howe,
Secretary to the Commission

CITIZENS THERMAL ENERGY
Changes to Pro Forma Revenue Requirements
Resulting From Manufacturing Division Closure

A	B	C	D	E	
Line No.	Revenue Requirement Description	Original Pro forma Adjustments	Revised Pro forma Adjustments	Change Due To Mfg. Div. Closure	
1	Steam Revenue	$ 4,087,876	$ 4,393,576	$ 305,700	
2	Other Revenue	(6,538)	(6,538)	-	
3	Total Operating Revenues	$ 4,081,338	$ 4,387,038	$ 305,700	
	Operating Expense				
4	Fuel Cost	$ 3,214,466	$ 3,520,166	$ 305,700	Increase coal 21,622 tons to replace 480,000 Dth COG
5	Gross Margin	$ 866,872	$ 866,872	$ -	
	Other Cost of Goods Sold				
6	Electric	$ 105,766	$ 105,766	$ -	
7	Water & Sewer	38,671	38,671	-	
8	Chemicals	114,201	114,201	-	
9	Total Other Cost of Goods Sold	$ 258,638	$ 258,638	$ -	
	Operations & Maintenance				
10	Plant Operations	$ -	$ -	$ -	
11	Plant Maintenance	652,319	1,152,319	500,000	Increase parts and contract labor
12	Distribution Maintenance	-	-	-	
13	Customer Operations/Metering Maintenance	-	-	-	
14	Total Operations & Maint	$ 652,319	$ 1,152,319	$ 500,000	
	General & Administrative				
15	Administrative & General	$ 842,000	$ 1,194,043	$ 352,043	Additional 6 employees
16	Outside Services	-	-	-	
17	Employee Benefits	363,616	369,373	5,757	Additional benefits for 6 employees
18	Corporate Support	-	-	-	
19	Other Administrative & General	163,078	163,078	-	
20	Total General & Admin	$ 1,368,694	$ 1,726,494	$ 357,800	

CITIZENS THERMAL ENERGY
Changes to Pro Forma Revenue Requirements
Resulting From Manufacturing Division Closure

A	B	C	D	E	
Line No.	Revenue Requirement Description	Original Pro forma Adjustments	Revised Pro forma Adjustments		
	Depreciation & Amortization				
21	Depreciation	$ 701,380	$ 701,380	$ -	
22	Amortization	-	-	-	
23	*Total Depreciation & Amortization*	$ 701,380	$ 701,380	$ -	
	Taxes				
24	Property Tax	$ (27,231)	$ (27,231)	$ -	
25	Payroll & Miscellaneous	101,328	130,035	28,707	Increased payroll tax for 6 employees
26	Indiana Utility Receipts Tax	84,827	89,107	4,280	IURT on increased pro forma adjustments
27	Total Taxes	$ 158,924	$ 191,911	$ 32,987	
28	**Total Operating Expenses**	$ 6,354,421	$ 7,550,908	$ 1,196,487	
29	IURT on Revenue Requirement Increase	$ 94,556	$ 107,204	$ 12,648	IURT on adjustment to revenue requirement deficit
30	**Total Pro Forma Adjustments**	$ 6,448,977	$ 7,658,112	$ 1,209,135	
31	Less Adjustment to Revenue to Match Fuel Cost			$ (305,700)	Offset by increase in revenue for additional fuel cost
32	**Net Pro Forma Adjustments**			$ 903,435	

BEFORE THE

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF THE BOARD OF DIRECTORS FOR UTILITIES OF THE DEPARTMENT OF PUBLIC UTILITIES OF THE CITY OF INDIANAPOLIS, AS SUCCESSOR TRUSTEE OF A PUBLIC CHARITABLE TRUST, D/B/A CITIZENS THERMAL ENERGY FOR (1) AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR STEAM UTILITY SERVICE, (2) APPROVAL OF A NEW SCHEDULE OF RATES AND CHARGES APPLICABLE THERETO, (3) APPROVAL OF CHANGES TO ITS GENERAL TERMS AND CONDITIONS FOR STEAM SERVICE, (4) APPROVAL OF NEW DEPRECIATION ACCRUAL RATES, AND (5) APPROVAL FOR THE QUARTERLY FILING OF FUEL COST ADJUSTMENT APPLICATIONS.	)	**CAUSE NO. 43201**

VERIFIED SUPPLEMENTAL DIRECT TESTIMONY
of
KERRY A. HEID

On
Behalf of
Petitioner

Citizens Thermal Energy

Petitioner's Exhibit KAH-S

SUPPLEMENTAL DIRECT TESTIMONY OF KERRY A. HEID

I. INTRODUCTION AND OVERVIEW

1. Please state your name and business address.

A. My name is Kerry A. Heid. My address is 3212 Brookfield Drive, Newburgh, IN 47630.

2. What is your occupation?

A. I am an independent utility rate consultant. I have been engaged by the Petitioner, Citizens Thermal Energy, to prepare a cost of service study and recommend a rate design in this proceeding.

3. What is your educational background?

A. In 1973, I graduated from Purdue University with a Bachelor of Science degree in Civil Engineering. In 1985, I graduated from Indiana University with a Master of Business Administration degree, majoring in Finance.

4. Please describe your business experience.

A. My business experience and qualifications are set forth in Petitioner's Exhibit KAH-S1.

5. Do you hold any professional accreditations?

A. Yes. I have been a licensed Professional Engineer in the State of Indiana since 1977.

6. Have you previously testified before this Commission?

A. Yes. I have testified on numerous occasions before this Commission on cost-of-service, rate design and other matters.

7. What is the purpose of your Supplemental Direct Testimony in this proceeding?

A. The purpose of my Supplemental Direct Testimony is to update my initial prefiled direct testimony for events that occurred after that testimony was prefiled. Specifically, the closure of the coke manufacturing plant will affect the revenue requirements, as more fully discussed by Petitioner's witnesses Mr. Carey B. Lykins, Mr. William A. Tracy and Ms. LaTona S. Prentice. The revisions to the revenue requirements, in turn, require revisions to:

(1) Petitioner's cost of service study;

(2) Petitioner's proposed revenue distribution among its rate schedules; and

(3) The proposed rate design and levels of rates and charges applicable to each rate schedule.

8. How is your testimony organized?

A. My testimony is organized into the following sections:

I. Introduction and Overview

II. Overview of Rate Schedules and Cost of Service Study

III. Phase One Cost of Service and Rate Design

A. Cost of Service Study

B. Proposed Revenue Distribution Among Rate Schedules

C. Proposed Rates and Charges

IV. Phase Two Cost of Service and Rate Design

A. Cost of Service Study

B. Proposed Revenue Distribution Among Rate Schedules

C. Proposed Rates and Charges

9. What exhibits are you sponsoring in this proceeding?

A. I am sponsoring the following supplemental exhibits:

KAH-1S	Business Experience and Qualifications of Kerry A. Heid
KAH-2S	Phase One Cost of Service Study
KAH-3S	Phase One Tariff for Steam Service
KAH-4S	Phase One Bill Impacts
KAH-5S	Phase Two Cost of Service Study
KAH-6S	Phase Two Tariff for Steam Service
KAH-7S	Phase Two Bill Impacts

II. OVERVIEW OF RATE SCHEDULES AND COST OF SERVICE STUDY

10. Please provide an overview of the current rate schedules that form the basis for your cost of service study.

A. The current rate schedules are summarized below. Each of these rate schedules will be discussed in further detail in later sections of my testimony.

Rate 1 – General Steam Service is available for spaceheating and other general service uses to customers who have Equivalent Direct Radiation ("EDR") of more than 30,000 square feet. Rate 1 has 169 customers,

averaging 19,000 therms per year.

Rate 2 – Demand Rate Service is available to steam customers who contract for a minimum Billing Demand of 50 therms per hour. Rate 2 has 72 customers. The average Rate 2 customer is quite large compared to the Rate 1 customers, averaging 472,000 therms per year.

Rate 3 – Additional Summer Service is available for steam chilling and similar warm weather applications during the Months of April through October. It is also available during the months of November through March when the mean temperature of the preceding day was 40°F or higher. This steam is primarily used in off-peak cooling applications. The customer uses the steam to drive a turbine, which in turn drives a chiller, and provides cooled water for air conditioning needs. There are four large customers receiving service under Rate 3. The average usage of these customers is 2,900,000 therms per year.

11. Please provide an overview of your testimony as it relates to your cost of service study.

A. The purpose of my testimony is to sponsor fully allocated cost of service studies based on Petitioner's embedded cost of providing steam service for the twelve months ended September 30, 2006. As described in the testimony of Petitioner's Executive Director of Regulatory Affairs LaTona Prentice, Petitioner's Exhibit LSP-S, page 5, Petitioner is proposing a two step rate

increase. Petitioner's Exhibit LSP-S1, Page 2 of 19, Column G, Line 33, reflects the total Phase One revenue requirement is $61,797,390. Petitioner's Exhibit LSP-S1, Page 2 of 19, Column K, Line 33, reflects the total Phase Two revenue requirement is $64,860,060. As more fully discussed by Ms. Prentice, the $3,062,670 increase in the Phase Two revenue requirement is necessary to recover the increased costs from the recently approved Covanta Agreement when it becomes effective December 1, 2008. Therefore, I have prepared separate cost of service studies for Phase One and for Phase Two.

Working with Petitioner's management and staff, I prepared embedded cost of service studies based on Petitioner's accounting costs per books, adjusted for known and measurable changes to test year operating results, for the twelve months ended September 30, 2006. As discussed above, the cost of service studies correspond to the proforma financial exhibits included in the exhibits of LaTona S. Prentice. My objective in performing the cost of service studies was to determine the rate of return on rate base that Petitioner earns from each customer class, which provides an indication as to whether its rates reflect the cost of providing service to each customer class.

12. Explain the composition of the cost of service study.

A. The study consists of two parts. First, the investment required to serve each rate schedule was determined. This was done by allocating total utility rate base at September 30, 2006 among the customer rate classes based on

various assignment and allocation methods. Second, the operating expenses incurred in providing service to each customer rate class were determined. This was done by allocating the proforma costs of providing steam service, as determined on a going level basis at present and proposed rates, among the customer rate classes based on various assignment and allocation methods.

13. Where did you obtain the data used to perform the cost of service study?

A. Investment cost data was taken from Petitioner's detailed property accounting information. The cost of service data was obtained from accounting information which formed the basis of the Test Year Statement of Income and Pro Forma Revenue Requirement shown in Petitioner's Exhibit LSP-S1, Pages 1 and 2 of 19, sponsored by Petitioner's witness Prentice. Data used to derive allocation factors in the allocation of rate base and cost of service came from various sources, including Petitioner's books and records.

III. PHASE ONE COST OF SERVICE STUDY AND RATE DESIGN

A. Cost of Service Study Calculation Schedules

14. Please describe Petitioner's Exhibit KAH-2S.

A. Petitioner's Exhibit KAH-2S presents the supplemental cost of service study I prepared in this proceeding based on the supplemental Phase One revenue requirement. Schedules 1 through 7 present the basic cost of service

calculation schedules. The remaining Schedules 8 through 14 present summarized results of the cost of service study and proposed rate design.

Schedule 1 presents a table of the rate schedule allocation factors used in the cost allocation process. These cost allocation factors are cross-referenced in the cost allocation schedules that will be subsequently discussed in this section. Schedule 2 presents the results of the allocation of Petitioner's rate base among its various customer rate classes. Schedule 3 presents the results of the allocation of depreciation and amortization expenses among the various customer rate classes. Schedule 4 presents the results of the allocation of operation and maintenance expenses ("O&M") among the various customer rate classes at Proforma A and Proforma B revenue levels, respectively. The designation "Proforma A" represents results at present revenue levels. The designation "Proforma B" represents results at proposed revenue levels. Schedule 5 presents the results of the allocation of revenue credits among the various customer rate classes. Schedule 6 reflects the class-by-class calculation of Indiana Utility Receipts Taxes and determines the customer class operating results at present and proposed rates. Schedule 7 reflects the summarized results of the preceding cost of service allocations.

B. Phase One Revenue Distribution Among Rate Schedules

15. Have you used the results of the supplemental Phase One cost of service study in developing your proposed revenue allocations by rate schedule?

A. Yes. My cost of service study served as the foundation for determining the revenue allocations I am proposing. My cost of service study was structured to provide revenue and operating income amounts and associated taxes to compute the rate of return on rate base for each rate schedule at both present and proposed rates.

16. Please identify the rates of return by rate schedule under Petitioner's present rates.

A. Petitioner's Exhibit KAH-2S, Schedule 8, contains the Statement of Operating Income at present rates by rate schedule. Line 11 of that schedule reflects the current rate of return for each rate schedule. Line 12 reflects the Earnings Indices comparing the current class rates of return to the current overall rate of return for Petitioner's steam system.

17. Please identify the total operating revenues by rate schedule that would result from equal rates of return at the present revenue level.

A. Petitioner's Exhibit KAH-2S, Schedule 9, contains the Statement of Operating Income at equal rates of return at the present revenue level.

18. Please identify the total operating revenues by rate schedule that would result from equal rates of return at the proposed revenue requirement.

A. Petitioner's Exhibit KAH-2S, Schedule 10, contains the Statement of Operating Income at equal rates of return at the proposed Phase One revenue requirement.

19. Please identify the rates of return by rate schedule under Petitioner's proposed Phase One rates.

A. Petitioner's Exhibit KAH-2S, Schedule 11, contains the Statement of Operating Income at proposed Phase One rates by rate schedule.

20. Please identify the subsidy level for each rate schedule at present and proposed rates and the change in each subsidy level reflected in the proposed revenue allocations.

A. Petitioner's Exhibit KAH-2S, Schedule 12, reflects the current and proposed customer class subsidy levels for each rate schedule at present and proposed Phase One rates.

21. Please describe the basis for your proposed Phase One subsidy reduction levels.

A. Consistent with long-established Commission policy, Petitioner's objective in its revenue allocation process is to reduce interclass subsidies to the extent practical, while mitigating rate shock. Our approach was to propose rates that moved toward equal rates of return and thereby reduce subsidies while producing reasonable percentage increases to each rate schedule. In this case Petitioner concluded that a 25% reduction in subsidies should be proposed.

However, the Rate 3 customer class showed the need for a rate decrease, which was deemed undesirable from a rate stability objective. Therefore, the Rate 3 rates were left unchanged, and the Rate 2 rates were adjusted accordingly to mitigate their higher increase.

22. What effect will the proposed revenue distribution and subsidy reduction levels have on the annual revenues to be collected from each rate schedule under the Phase One revenue requirements?

A. Petitioner's Exhibit KAH-2S, Schedule 13, contains a summary of present and proposed Phase One revenues by rate schedule.

C. Proposed Phase One Rates and Charges

23. Have you developed proposed Phase One rates that produce the results described in the preceding section for the Phase One revenue requirement?

A. Yes. Petitioner's Exhibit KAH-2S, Schedule 14, contains the Calculation of Revenues at Present and Proposed Rates. This schedule summarizes the proposed rates and provides a revenue proof demonstrating they generate the appropriate level of revenues. These proposed rates and charges are contained in the Tariff for Steam Service in Petitioner's Exhibit KAH-3S.

24. Please summarize the proposed revisions to the current rate schedules.

A. All of the current rate schedules remain unchanged, other than for changes in the levels of the rates and charges, which will be subsequently described.

Rate 1 – General Steam Service

25. What changes are proposed to the Phase One rates and charges for Rate 1-General Steam Service?

A. The various Customer Charges for Rate 1 have been increased on essentially an across-the-board basis based on the overall percentage increase to Rate 1. The remaining allocated costs to this rate schedule will be recovered through the Energy Charge, again on essentially an across-the-board basis.

26. Please describe the impact of Petitioner's proposed revenue allocations and rates and charges upon Rate 1-General Steam Service customers.

A. Petitioner's Exhibit KAH-4S, Schedule 1, contains tables of monthly bill amounts calculated at various levels of usage for both present and proposed rates for the Rate 1 customers. The dollar and percentage increase in monthly bill amounts are identified for each usage level.

Rate 2 – Demand Rate Service

27. What changes are proposed to the Phase Two rates and charges for Rate 2-Demand Rate Service?

A. The Demand Charge for Rate 2 has been raised to $127.00 from $104.39. The cost of service study identified the demand costs to be in excess of $200. However, Petitioner was concerned about the potential for intraclass rate shock and cost shifts if the Demand Charge were increased to that level. Therefore, Petitioner proposed essentially an across-the-board increase to the Demand Charge. The remaining allocated costs to this rate schedule will be recovered through the single-block Energy Charge.

28. What impact will Petitioner's proposed revenue allocation and rates and charges have on Rate 2 customers?

A. Petitioner's Exhibit KAH-4S, Schedule 2, contains tables of monthly bill amounts calculated at various levels of usage for both present and proposed rates for the Rate 2 customers. The dollar and percentage increase in monthly bill amounts are identified for each usage level at various demand levels.

Rate 3 – Additional Summer Service

29. What changes are proposed to the rates and charges to Rate 3-Additional Summer Service?

A. As previously described, no changes to the rate levels are proposed for Rate 3 customers.

IV. PHASE TWO COST OF SERVICE STUDY AND RATE DESIGN

A. Cost of Service Study Calculation Schedules

30. Please describe Petitioner's Exhibit KAH-5S.

A. Petitioner's Exhibit KAH-5S presents the supplemental cost of service study I prepared in this proceeding based on the supplemental Phase Two revenue requirement. Schedules 1 through 7 present the basic cost of service calculation schedules. The remaining Schedules 8 through 14 present summarized results of the cost of service study and proposed rate design.

Schedule 1 presents a table of the rate schedule allocation factors used in the cost allocation process. These cost allocation factors are cross-referenced in the cost allocation schedules that will be subsequently discussed in this section. Schedule 2 presents the results of the allocation of Petitioner's rate base among its various customer rate classes. Schedule 3 presents the results of the allocation of depreciation and amortization expenses among the various customer rate classes. Schedule 4 presents the results of the allocation of operation and maintenance expenses ("O&M") among the various customer rate classes at Proforma A and Proforma B revenue levels, respectively. Schedule 5 presents the results of the allocation of revenue credits among the various customer rate classes. Schedule 6 reflects the class-by-class calculation of Indiana Utility Receipts Taxes and determines the customer class

operating results at present and proposed rates. Schedule 7 reflects the summarized results of the preceding cost of service allocations.

B. Phase Two Revenue Distribution Among Rate Schedules

31. Have you used the results of the Phase Two cost of service study in developing your proposed revenue allocations by rate schedule?

A. Yes. My cost of service study served as the foundation for determining the revenue allocations I am proposing. My cost of service study was structured to provide revenue and operating income amounts and associated taxes to compute the rate of return on rate base for each rate schedule at both present and proposed rates.

32. Please identify the rates of return by rate schedule under Petitioner's present rates.

A. Petitioner's Exhibit KAH-5S, Schedule 8, contains the Statement of Operating Income at present rates by rate schedule. Line 11 of that schedule reflects the current rate of return for each rate schedule. Line 12 reflects the Earnings Indices comparing the current class rates of return to the current overall rate of return.

33. Please identify the total operating revenues by rate schedule that would result from equal rates of return at the present revenue level.

A. Petitioner's Exhibit KAH-5S, Schedule 9, contains the Statement of Operating Income at equal rates of return at the present revenue level.

34. Please identify the total operating revenues by rate schedule that would result from equal rates of return at the proposed revenue requirement.

A. Petitioner's Exhibit KAH-5S, Schedule 10, contains the Statement of Operating Income at equal rates of return at the proposed Phase Two revenue requirement.

35. Please identify the rates of return by rate schedule under Petitioner's proposed Phase Two rates.

A. Petitioner's Exhibit KAH-5S, Schedule 11, contains the Statement of Operating Income at proposed Phase Two rates by rate schedule.

36. Please identify the subsidy level for each rate schedule at present and proposed rates and the change in each subsidy level reflected in the proposed revenue allocations.

A. Petitioner's Exhibit KAH-5S, Schedule 12, reflects the current and proposed customer class subsidy levels for each rate schedule at present and proposed Phase Two rates.

37. Please describe the basis for your proposed Phase Two subsidy reduction levels.

A. Consistent with long-established Commission policy, Petitioner's objective in its revenue allocation process is to reduce interclass subsidies to the extent

practical, while mitigating rate shock. Our approach was to propose rates that moved toward equal rates of return and thereby reduce subsidies while producing reasonable percentage increases to each rate schedule. In this case Petitioner concluded that a 10% reduction in subsidies should be proposed in Phase Two. However, the Rate 3 customer class showed the need for a rate decrease, which was deemed undesirable from a rate stability objective. Therefore, the Rate 3 margin (non-gas cost) rates were left unchanged, and the Rate 2 rates were adjusted accordingly to mitigate their higher increase.

38. What effect will the proposed revenue distribution and subsidy reduction levels have on the annual revenues to be collected from each rate schedule under the Phase Two revenue requirements?

A. Petitioner's Exhibit KAH-5S, Schedule 13, contains a summary of present and proposed Phase Two revenues by rate schedule.

C. Proposed Phase Two Rates and Charges

39. Have you developed proposed Phase Two rates that produce the results described in the preceding section for the Phase Two revenue requirements?

A. Yes. Petitioner's Exhibit KAH-5S, Schedule 14, contains the Calculation of Revenues at Present and Proposed Phase Two Rates. This schedule summarizes the proposed rates and provides a revenue proof demonstrating they generate the appropriate level of revenues. These proposed rates and

charges are contained in the Tariff for Steam Service in Petitioner's Exhibit KAH-6S.

40. Please describe the proposed revisions to Petitioner's current rate schedules.

A. All of the current rate schedules remain unchanged, other than for changes in the levels of the rates and charges, which will be subsequently described.

Rate 1 – General Steam Service

41. What changes are proposed to the Phase Two rates and charges for Rate 1-General Steam Service?

A. The various Customer Charges for Rate 1 have been increased on essentially an across-the-board basis. The remaining allocated costs to this rate schedule will be recovered through the Energy Charge, again on essentially an across-the-board basis.

42. Please describe the impact of Petitioner's proposed revenue allocations and rates and charges upon Rate 1-General Steam Service customers.

A. Petitioner's Exhibit KAH-7S, Schedule 1, contains tables of monthly bill amounts calculated at various levels of usage for both present and proposed rates for the Rate 1 customers. The dollar and percentage increase in monthly bill amounts is identified for each usage level.

Rate 2 – Demand Rate Service

43. What changes are proposed to the Phase Two rates and charges for Rate 2-Demand Rate Service?

A. The Demand Charge for Rate 2 has been raised to $137.00. The cost of service study identified the demand costs to be in excess of $200. However, the Petitioner was concerned about the potential for intraclass rate shock and cost shifts if the Demand Charge were increased to that level. Therefore, Petitioner proposed essentially an across-the-board increase to the Demand Charge. The remaining allocated costs to this rate schedule will be recovered through the single-block Energy Charge.

44. What impact will Petitioner's proposed revenue allocation and rates and charges have on Rate 2 customers?

A. Petitioner's Exhibit KAH-7S, Schedule 2, contains tables of monthly bill amounts calculated at various levels of usage for both present and proposed rates for the Rate 2 customers. The dollar and percentage increase in monthly bill amounts is identified for each usage level at various demand levels.

Rate 3 – Additional Summer Service

45. What changes are proposed to the rates and charges to Rate 3-Additional Summer Service?

A. As previously described, no changes to the margin rate levels are proposed for Rate 3 customers.

46. Does this conclude your prepared direct testimony?

A. Yes, at the present time.

VERIFICATION

STATE OF INDIANA)
) ss:
COUNTY OF WARRICK)

The undersigned, Kerry A. Heid, under penalties of perjury and being first duly sworn on his oath, says that he caused to be prepared and read the foregoing Supplemental Direct Testimony; and that the representations set forth therein are true and correct to the best of his knowledge, information and belief.

Kerry A. Heid

By: Kerry A. Heid
Heid Rate and Regulatory Services

Subscribed and sworn to before me, a Notary Public, this 25th day of April, 2007.

Ann Dunavent

Signature

ANN DUNAVENT

Printed Name

My Commission Expires: 08/11/08

My County of Residence: Warrick

KERRY A. HEID, P.E. ***Heid Rate and Regulatory Services***
President

Mr. Heid is an independent rate consultant with 26 years of gas, electric, water and wastewater utility experience in the rate and regulatory areas. Mr. Heid was previously Director of Rates for Vectren Corporation where he directed the rate activities for the Vectren utilities of Indiana Gas Company, Southern Indiana Gas and Electric Company and Vectren Energy Delivery of Ohio. While at Vectren Mr. Heid was responsible for preparation of cost of service studies, development of rate schedules and preparation of Purchased Gas Adjustment ("PGA") filings. Mr. Heid has testified on numerous occasions regarding cost of service studies and rate design.

Prior to his employment with Vectren, Mr. Heid was a senior member of the Indiana Utility Regulatory Commission technical staff. Mr. Heid was also previously employed in the Management Services Division of Black & Veatch Consulting Engineers, where he prepared cost of service studies for utilities throughout the United States.

Since leaving Vectren Mr. Heid has continued consulting with Vectren on gas and electric cost of service and rate design matters. Mr. Heid has also assisted other gas, electric, water and wastewater utility clients in preparing cost of service studies and developing new rate schedules. Mr. Heid has also provided cost of service and rate design assistance to large customers in various regulatory and court proceedings.

Mr. Heid has been actively involved as a member of the following professional industry associations: (i) *American Gas Association ("AGA") Rate and Strategic Planning Committee*, including former Chair of its Revenue Requirements Subcommittee; (ii) *Indiana Gas Association Rate Committee*, Former Chair; (iii) *Edison Electric Institute Economic Regulation and Competition Committee*; (iv) *Indiana Electric Association Rates and Tariffs Committee*; (v) *American Water Works Association Rates and Charges Committee.* Appointed to Subcommittee revising Manual M1, "Principles of Water Rates, Fees, and Charges;" (vi) *Water Subcommittee of the National Association of Regulatory Utility* Commissioners ("NARUC"); and (vii) *Water Environment Federation.*

Mr. Heid has been an instructor at the AGA Gas Rates School, has given presentations to the American Gas Association Rate and Strategic Planning Committee on various topics including PGA mechanisms, and has been invited by the Indiana Utility Regulatory Commission to conduct training for its staff on PGA mechanisms. Mr. Heid has served on the faculty at the NARUC Annual Eastern Utility Water Rate Seminar, and has given presentations to the Annual Meeting of the Indiana Chapter of the American Water Works Association, the Indiana Chapter of the American Society of Civil Engineers, the Indiana Water Association, the Indiana Rural Water Association, the Indiana Association of Conservancy Districts, and the Governor's Drought Advisory Committee.

Mr. Heid has a B.S. degree in Civil Engineering from Purdue University and an MBA degree with a concentration in finance from Indiana University. Mr. Heid is a registered Professional Engineer in the State of Indiana.

Client	Year	Project Emphasis
Vectren North (Indiana Gas Co.)	1990	Gas Cost of Service Study and Rate Design Normal Temperature Adjustment
Vectren North (Indiana Gas Co.)	1992-1995	Gas Cost of Service Study and Rate Design Normal Temperature Adjustment Environmental Cost Recovery Tracker
Vectren North (Indiana Gas Co.)	1989-2002	Quarterly Gas Cost Adjustments
Vectren South (SIGECO)-Gas	2000-2002	Quarterly Gas Cost Adjustments
Vectren South (SIGECO)-Electric	2000-2002	Quarterly Electric Fuel Cost Adjustments Demand Side Management Cost Riders
Vectren Energy Delivery of Ohio	2000-2002	Quarterly Gas Cost Adjustments
Vectren Energy Delivery of Ohio	2001	Gas Cost Recovery Audit
Vectren Energy Delivery of Ohio	2001	Senate Bill 287 Implementation Gross Receipts Tax Rider
Vectren South (SIGECO)-Electric	2001	NOx Environmental Cost Recovery Mechanism
Vectren South (SIGECO)-Electric	2002	NOx Environmental Cost Recovery Mechanism
Vectren South (SIGECO)-Electric	2002	Review of Electric Cost of Service Study
Evansville Business Alliance	2002	Wastewater Cost of Service Study and Rate Design
Evansville Business Alliance	2002	Water Cost of Service Study and Rate Design
Mead Johnson (Bristol Myers)	2003	Wastewater Rate Projections
Vectren South (SIGECO)-Electric	2003	NOx Environmental Cost Recovery Mechanism
South Bend Industrial Intervenors	2003	Wastewater Cost of Service and Rate Design
Indiana Utilities Corporation	2003	Gas Cost of Service and Rate Design
Community Natural Gas Co.	2003	Gas Cost of Service Study and Rate Design
Indiana Natural Gas Corp.	2003	Gas Cost of Service Study and Rate Design
Indiana-American Water Company	2003	Water Cost of Service Study and Rate Design Single Tariff Pricing
GPI at Danville Crossing	2003-2005	Wastewater Rate Design

Client	Year	Project Emphasis
Vectren South (SIGECO)–Gas	2003	Gas Cost of Service Study and Rate Design Normal Temperature Adjustment
Purdue University	2004	Wastewater Cost of Service Study and Rate Design
City of Frankfort , IN	2004	Water Cost of Service Study and Rate Design Large Customer Bypass Negotiations
Evansville Business Alliance	2004	Wastewater Cost of Service Study and Rate Design
Switzerland County Natural Gas	2004	Gas Cost of Service Study and Rate Design
Vectren Energy Delivery of Ohio	2004	Gas Cost of Service Study and Rate Design
Vectren North (Indiana Gas Co.)	2004	Gas Cost of Service Study and Rate Design Normal Temperature Adjustment
Clay Utilities Customers	2005	Outside City Surcharge
City of East Chicago, IN	2005	Water Cost of Service Study and Rate Design
Indianapolis (Veolia) Water Company	2006	Water Cost of Service Study and Rate Design
Culver Academies	2005	Wastewater Cost of Service Study and Rate Design
City of Anderson, IN	2005-2006	Water Cost of Service Study and Rate Design
Vectren South (SIGECO)-Electric	2006-2007	Electric Cost of Service Study and Rate Design
Vectren South (SIGECO)-Gas	2006-2007	Gas Cost of Service Study and Rate Design
MasterGuard Corporation	2006	Electric Rate Billing Dispute
City of Anderson, IN	2006	Wastewater Cost of Service Study and Rate Design
Lawrenceburg Gas Corp.	2006-2007	Gas Cost of Service Study and Rate Design Rate Consolidation
Fountaintown Gas Company ,	2006	Transportation Balancing Provisions
Lawrenceburg Gas Company Midwest Natural Gas Corporation Indiana Utilities Corporation South Eastern Indiana Natural Gas Co. Fountaintown Gas Company, Inc. Community Natural Gas Co. Boonville Natural Gas Corporation Chandler Natural Gas Corporation Indiana Natural Gas Corporation	2006	Normal Temperature Adjustment

Indiana-American Water Company	2006-2007	Purchased Power Tracker
Missouri-American Water Company	2006-2007	CWIP Surcharge
Grandview Municipal Waterworks	2007	Sale for Resale Rate Litigation
Citizens Gas & Coke Utility	2007	Normal Temperature Adjustment
Southeastern Indiana REMC	2007	Electric Cost of Service Study and Rate Design
Ohio Valley Gas Company	2007	Gas Cost of Service Study and Rate Design Normal Temperature Adjustment Pipeline Safety Integrity Rider
Grandview Municipal Waterworks	2007	Sale for Resale Rate Litigation

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE ONE
SCHEDULE OF ALLOCATION FACTORS

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-2S
SCHEDULE 1

NO.	ALLOCATORS	Rate 1	Rate 2	Rate 3	Total
Input Allocators					
	Annual Sales	3,267,198	33,768,403	11,600,320	48,635,921
2		6.7177%	69.4310%	23.8513%	100.0000%
	Number of Bills	2,025	859	48	2,932
3		69.0655%	29.2974%	1.6371%	100.0000%
	5 CP Demand Rates 1 and 2	33,192	253,963	0	287,155
5		11.5590%	88.4410%	0.0000%	100.0000%
	P/F A Normal Rev. w/o Misc. Rev.	$4,322,313	$28,328,976	$3,883,382	$36,534,670
6		11.8307%	77.5400%	10.6293%	100.0000%
	Direct to Rate 3A	0	0	1	1
11		0.0000%	0.0000%	100.0000%	100.0000%
	Annual Sales to Rates 1, 2 & 3B	3,267,198	33,768,403	2,960,374	39,995,975
13		8.1688%	84.4295%	7.4017%	100.0000%
	Production Plant	1,974,999	15,699,146	198,431	17,872,575
24		11.0504%	87.8393%	1.1103%	100.0000%
Internally-Generated Allocators					
	Gross Plant	$7,238,432	$41,139,042	$958,871	$49,336,345
100		14.6716%	83.3849%	1.9435%	100.0000%
	Net Plant	$6,386,706	$36,251,803	$843,483	$43,481,992
101		14.6882%	83.3720%	1.9398%	100.0000%

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE ONE
SCHEDULE OF ALLOCATION FACTORS

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-2S
SCHEDULE 1
PAGE 2 OF 2

NO.	ALLOCATORS	Rate 1	Rate 2	Rate 3	TOTAL
Internally-Generated Allocators (cont.)					
103	Distribution Mains	$1,024,786 10.8328%	$8,096,817 85.5895%	$338,453 3.5777%	$9,460,056 100.0000%
104	Subtotal Fuel	$1,058,431 7.4532%	$10,939,507 77.0332%	$2,203,087 15.5136%	$14,201,026 100.0000%
106	Production Plant	$1,974,999 11.0504%	$15,699,146 87.8393%	$198,431 1.1103%	$17,872,575 100.0000%
109	Distribution Plant	$1,024,980 10.8328%	$8,098,351 85.5895%	$338,517 3.5777%	$9,461,848 100.0000%
110	Subtotal Gross Plant	$4,282,937 14.6716%	$24,341,724 83.3849%	$567,358 1.9435%	$29,192,019 100.0000%
115	O&M Without Fuel Costs (P/F A)	$1,525,467 12.9527%	$10,056,410 85.3886%	$195,352 1.6587%	$11,777,229 100.0000%
117	O&M Without Fuel Costs (P/F B)	$2,557,426 12.9527%	$16,859,437 85.3886%	$327,505 1.6587%	$19,744,367 100.0000%

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE ONE
ALLOCATION OF RATE BASE

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-2S
SCHEDULE 2

		No.	Allocation Method	Total	Rate 1	Rate 2	Rate 3
	GROSS PLANT						
(1)	Total Steam Production Plant						
(2)	Demand	5	5 CP Demand Rates 1 and 2	$15,191,689	$1,756,002	$13,435,687	$0
(3)	Energy	13	Annual Sales to Rates 1, 2 & 3B	$2,680,886	$218,997	$2,263,459	$198,431
(4)	Total Distribution Plant						
(5)	Mains						
(6)	Energy	2	Annual Sales	$1,419,008	$95,324	$985,232	$338,453
(7)	Demand	5	5 CP Demand Rates 1 and 2	$8,041,047	$929,462	$7,111,585	$0
(8)	Land and Land Rights	103	Distribution Mains	$1,792	$194	$1,534	$64
(9)	Services	3	Number of Bills	$1,322,997	$913,734	$387,604	$21,659
(10)	Meters	3	Number of Bills	$534,599	$369,223	$156,624	$8,752
(11)	Total General and Intangible Plant	110	Subtotal Gross Plant	$20,144,326	$2,955,495	$16,797,318	$391,513
(12)	Total Gross Plant			$49,336,345	$7,238,432	$41,139,042	$958,871

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE ONE
ALLOCATION OF RATE BASE

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-2S
SCHEDULE 2
PAGE 2 OF 3

		No.	Allocation Method	Total	Rate 1	Rate 2	Rate 3
	DEPRECIATION RESERVE						
(1)	Total Steam Production Depr. Reserve	106	Production Plant	$1,975,186	$218,267	$1,734,990	$21,930
(2)	Total Distribution Plant Depreciation Reserve						
(3)	Mains	103	Distribution Mains	$1,142,466	$123,761	$977,832	$40,874
(4)	Land and Land Rights	103	Distribution Mains	$332	$36	$284	$12
(5)	Services	3	Number of Bills	$130,798	$90,336	$38,320	$2,141
(6)	Meters	3	Number of Bills	$68,110	$47,040	$19,954	$1,115
(7)	General and Intangible Plant Depreciation Reserve	110	Subtotal Gross Plant	$2,537,462	$372,286	$2,115,859	$49,317
(8)	Total Depreciation Reserve			$5,854,353	$851,726	$4,887,239	$115,388

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE ONE
ALLOCATION OF RATE BASE

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-2S
SCHEDULE 2
PAGE 3 OF 3

		No.	Allocation Method	Total	Rate 1	Rate 2	Rate 3
	OTHER RATE BASE COMPONENTS						
(1)	Materials and Supplies	100	Gross Plant	$4,191,781	$615,001	$3,495,311	$81,469
(2)	Customer Contracts	101	Net Plant	$31,667,651	$4,651,397	$26,401,952	$614,303
(3)	Total Other Rate Base Components			$35,859,432	$5,266,398	$29,897,262	$695,772
(4)	Total Rate Base			$79,341,424	$11,653,104	$66,149,065	$1,539,254

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE ONE
ALLOCATION OF DEPRECIATION AND AMORTIZATION EXPENSE

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-2S
SCHEDULE 3
PAGE 1 OF 1

		No.	Allocation Method	Total	Rate 1	Rate 2	Rate 3
	DEPRECIATION AND AMORTIZATION EXPENSES						
(1)	Total Steam Production Plant	106	Production Plant	$1,110,078	$122,669	$975,085	$12,325
(2)	Total Distribution						
(3)	Mains	103	Distribution Mains	$313,508	$33,962	$268,330	$11,216
(4)	Land and Land Rights	103	Distribution Mains	$49	$5	$42	$2
(5)	Services	3	Number of Bills	$79,344	$54,799	$23,246	$1,299
(6)	Meters	3	Number of Bills	$21,063	$14,547	$6,171	$345
(7)	General and Intangible Plant	110	Subtotal Gross Plant	$731,782	$107,364	$610,196	$14,222
(8)	Amortization of Leasehold Improvements	110	Subtotal Gross Plant	$187,152	$27,458	$156,056	$3,637
(9)	Total Depreciation and Amortization Expense			$2,442,977	$360,805	$2,039,126	$43,046

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE ONE
ALLOCATION OF OPERATION AND MAINTENANCE EXPENSE
PROFORMA A (PRESENT REVENUE LEVELS)

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-2S
SCHEDULE 4

		No.	Allocation Method	Total	Rate 1	Rate 2	Rate 3
	FUEL COSTS						
(1)	Cost of Boiler Fuel	13	Annual Sales to Rates 1, 2 & 3B	$8,017,805	$654,960	$6,769,393	$593,452
(2)	Cost of Purchases	13	Annual Sales to Rates 1, 2 & 3B	$4,939,167	$403,472	$4,170,115	$365,581
(3)	Cost of Purchased Steam-Summer	11	Direct to Rate 3A	$1,244,053	$0	$0	$1,244,053
(4)	Line Loss Fuel	104	Subtotal Fuel	$5,524,199	$411,730	$4,255,468	$857,001
(5)	Proforma Cost of Fuel (Excl. Spec. Contract Fuel)			$19,725,225	$1,470,161	$15,194,976	$3,060,088
(6)	Special Contract Fuel	6	P/F A Normal Rev. w/o Misc. Rev.	$11,467,495	$1,356,687	$8,891,893	$1,218,915
(7)	Total Fuel			$31,192,720	$2,826,848	$24,086,869	$4,279,003
	OPERATING EXPENSES						
(8)	Plant Operation & Maintenance Expense	24	Production Plant	$8,848,167	$977,762	$7,772,168	$98,237
(9)	Distribution Operation & Maintenance Expense	109	Distribution Plant	$2,533,396	$274,437	$2,168,322	$90,637
(10)	Customer Ops/Metering Expenses	3	Number of Bills	$395,666	$273,269	$115,920	$6,477
(11)	Administrative and General	115	O&M Without Fuel Costs (P/F A)	$7,967,139	$1,031,958	$6,803,027	$132,153
(12)	Total Proforma A Operating Costs			$19,744,367	$2,557,426	$16,859,437	$327,505

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE ONE
ALLOCATION OF OPERATION AND MAINTENANCE EXPENSE
PROFORMA B (PROPOSED REVENUE LEVELS)

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-2S
SCHEDULE 4
PAGE 2 OF 2

		NO.	Allocation Method	Total	Rate 1	Rate 2	Rate 3
	FUEL COSTS						
(1)	Cost of Boiler Fuel	13	Annual Sales to Rates 1, 2 & 3B	$8,017,805	$654,960	$6,769,393	$593,452
(2)	Cost of Purchases	13	Annual Sales to Rates 1, 2 & 3B	$4,939,167	$403,472	$4,170,115	$365,581
(3)	Cost of Purchased Steam-Summer	11	Direct to Rate 3A	$1,244,053	$0	$0	$1,244,053
(4)	Line Loss Fuel	104	Subtotal Fuel	$5,524,199	$411,730	$4,255,468	$857,001
(5)	Total Proforma Cost of Fuel			$19,725,225	$1,470,161	$15,194,976	$3,060,088
(6)	Special Contract Fuel	6	P/F A Normal Rev. w/o Misc. Rev.	$11,467,495	$1,356,687	$8,891,893	$1,218,915
(7)	Total Fuel			$31,192,720	$2,826,848	$24,086,869	$4,279,003
	OPERATING EXPENSES						
(8)	Plant Operation & Maintenance Expense	24	Production Plant	$8,848,167	$977,762	$7,772,168	$98,237
(9)	Distribution Operation & Maintenance Expense	109	Distribution Plant	$2,533,396	$274,437	$2,168,322	$90,637
(10)	Customer Ops/Metering Expenses	3	Number of Bills	$395,666	$273,269	$115,920	$6,477
(11)	Administrative and General	115	O&M Without Fuel Costs (P/F A)	$7,967,139	$1,031,958	$6,803,027	$132,153
(12)	Total Proforma B Operating Costs			$19,744,367	$2,557,426	$16,859,437	$327,505

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE ONE
ALLOCATION OF MISCELLANEOUS REVENUE CREDITS

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-2S
SCHEDULE 5
PAGE 1 OF 1

			Allocation Method	Total	Rate 1	Rate 2	Rate 3
	MISCELLANEOUS REVENUE CREDITS						
(1)	Special Contract-Margin	6	P/F A Normal Rev. w/o Misc. Rev.	$6,170,859	$730,057	$4,784,883	$655,919
(2)	Special Contract-Fuel	6	P/F A Normal Rev. w/o Misc. Rev.	$11,467,495	$1,356,687	$8,891,893	$1,218,915
(3)	Misc. Revenue Credits	6	P/F A Normal Rev. w/o Misc. Rev.	($33,054)	($3,911)	($25,630)	($3,513)
(4)	Total Miscellaneous Revenue Credits			$17,605,300	$2,082,833	$13,651,146	$1,871,321

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE ONE
CALCULATION OF TAXES, NET OPERATING INCOME AND REVENUES
PROFORMA A NORMALIZED TAXES

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-2S
SCHEDULE 6

	No.	ALLOCATION METHOD	Total	Rate 1	Rate 2	Rate 3
Proforma A Normalized Revenues. w/o Misc. Rev.			$36,534,670	$4,322,313	$28,328,976	$3,883,382
Proforma A Normalized Miscellaneous Revenues			17,605,300	2,082,833	13,651,146	1,871,321
Proforma A Normalized Rev. w/Misc. Revenues			$54,139,971	$6,405,146	$41,980,122	$5,754,703
Indiana Utility Receipts Taxes						
Total Proforma A Normalized Revenues w/ Misc. Rev.			$54,139,971	$6,405,146	$41,980,122	$5,754,703
Less: Uncollectible Expense	10	Uncollectibles Analysis	0	0	0	0
Less: Statutory Exemption	121	P/F A Normal Rev. w/ Misc. Rev.	0	0	0	0
Income for Utility Receipts Tax			$54,139,971	$6,405,146	$41,980,122	$5,754,703
Utility Receipts Tax Rate			1.40%	1.40%	1.40%	1.40%
Utility Receipts Tax			$757,960	$89,672	$587,722	$80,566
Net Operating Income						
Total Proforma A Normalized Margins			$54,139,971	$6,405,146	$41,980,122	$5,754,703
Less: Operation and Maintenance Expenses			(19,744,367)	(2,557,426)	(16,859,437)	(327,505)
Less: Fuel Costs			(31,192,720)	(2,826,848)	(24,086,869)	(4,279,003)
Less: Depreciation			(2,442,977)	(360,805)	(2,039,126)	(43,046)
Less: Other Taxes	115	O&M Without Fuel Costs (P/F A)	(608,595)	(78,829)	(519,671)	(10,095)
Less: Utility Receipts Tax			(757,960)	(89,672)	(587,722)	(80,566)
Less: Property Taxes	100	Gross Plant	(421,879)	(61,896)	(351,783)	(8,199)
Net Operating Income			($1,028,527)	$429,670	($2,464,486)	$1,006,289
Total Rate Base			$79,341,424	$11,653,104	$66,149,065	$1,539,254
Rate of Return			-1.30%	3.69%	-3.73%	65.38%

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE ONE
CALCULATION OF TAXES, NET OPERATING INCOME AND REVENUES
PROFORMA A EQUALIZED TAXES

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-2S
SCHEDULE 6

	NO.	ALLOCATION METHOD	TOTAL	Rate 1	Rate 2	Rate 3
Rate Base			$79,341,424	$11,653,104	$66,149,065	$1,539,254
Allowed Rate of Return			-1.2963%	-1.2963%	-1.2963%	-1.2963%
Allowed Net Operating Income			($1,028,528)	($151,063)	($857,511)	($19,954)
Utility Receipts Taxes						
Net Operating Income			(1,028,528)	(151,063)	(857,511)	(19,954)
Plus: Operating & Maintenance Expenses			$19,744,367	$2,557,426	$16,859,437	$327,505
Plus: Fuel Costs			$31,192,720	$2,826,848	$24,086,869	$4,279,003
Plus: Depreciation and Amortization Expenses			$2,442,977	$360,805	$2,039,126	$43,046
Plus: Property Taxes			421,879	61,896	351,783	8,199
Plus: Other Taxes			608,595	78,829	519,671	10,095
Less: Uncollectible Expense	10	Uncollectibles Analysis	0	0	0	0
Less: Statutory Exemption	121	P/F A Normal Rev. w/ Misc. Rev.	0	0	0	0
Total Amount to Calculate Utility Receipts Taxes			$53,382,010	$5,734,741	$42,999,374	$4,647,894
Utility Receipts Tax Factor (Tax Rate/(1-Tax Rate))			1.4199%	1.4199%	1.4199%	1.4199%
Utility Receipts Taxes			$757,960	$81,426	$610,539	$65,994
Derivation of Proforma A Equalized Revenues						
Net Operating Income			(1,028,528)	(151,063)	(857,511)	(19,954)
Plus: Operating & Maintenance Expenses			$19,744,367	$2,557,426	$16,859,437	$327,505
Plus: Fuel Costs			31,192,720	2,826,848	24,086,869	4,279,003
Plus: Depreciation and Amortization Expenses			$2,442,977	$360,805	$2,039,126	$43,046
Plus: Gross Income Taxes			757,960	81,426	610,539	65,994
Plus: Property Taxes			421,879	61,896	351,783	8,199
Plus: Other Taxes			608,595	78,829	519,671	10,095
Proforma A Equalized Revenues w/Misc. Rev.			$54,139,970	$5,816,168	$43,609,913	$4,713,889

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE ONE
CALCULATION OF TAXES, NET OPERATING INCOME AND REVENUES
PROFORMA B EQUALIZED TAXES

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-2S
SCHEDULE 6

	NO.	ALLOCATION METHOD	TOTAL	Rate 1	Rate 2	Rate 3
Rate Base			$79,341,424	$11,653,104	$66,149,065	$1,539,254
Allowed Rate of Return			8.2198%	8.2198%	8.2198%	8.2198%
Allowed Net Operating Income			$6,521,688	$957,859	$5,437,305	$126,523
Utility Receipts Tax						
Net Operating Income			6,521,688	957,859	5,437,305	126,523
Plus: Operating & Maintenance Expenses			$19,744,367	$2,557,426	$16,859,437	$327,505
Plus: Fuel Costs			$31,192,720	$2,826,848	$24,086,869	$4,279,003
Plus: Depreciation and Amortization Expenses			$2,442,977	$360,805	$2,039,126	$43,046
Plus: Property Taxes			421,879	61,896	351,783	8,199
Plus: Other Taxes	117	O&M Without Fuel Costs (P/F B)	608,595	78,829	519,671	10,095
Less: Uncollectible Expense	10	Uncollectibles Analysis	0	0	0	0
Less: Statutory Exemption	122	P/F A Equalized Rev. w/ Misc. Rev.	0	0	0	0
Total Amount to Calculate Utility Receipts Tax			$60,932,225	$6,843,663	$49,294,191	$4,794,371
Utility Receipts Tax Factor (Tax Rate/(1-Tax Rate))			1.4199%	1.4199%	1.4199%	1.4199%
Utility Receipts Taxes			$865,163	$97,172	$699,918	$68,074
DERIVATION OF PROFORMA B EQUALIZED REVENUES						
Net Operating Income			6,521,688	957,859	5,437,305	126,523
Plus: Operating & Maintenance Expenses			$19,744,367	$2,557,426	$16,859,437	$327,505
Plus: Fuel Costs			31,192,720	2,826,848	24,086,869	4,279,003
Plus: Depreciation and Amortization Expenses			$2,442,977	$360,805	$2,039,126	$43,046
Plus: Utility Receipts Taxes			865,163	97,172	699,918	68,074
Plus: Property Taxes			421,879	61,896	351,783	8,199
Plus Other Taxes			608,595	78,829	519,671	10,095
Proforma B Equalized Revenues w/Misc. Rev.			$61,797,389	$6,940,835	$49,994,108	$4,862,446

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE ONE
CALCULATION OF TAXES, NET OPERATING INCOME AND REVENUES
PROFORMA B NORMALIZED TAXES

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-2S
SCHEDULE 6

	NO.	ALLOCATION METHOD	TOTAL	Rate 1	Rate 2	Rate 3
SUBSIDY REDUCTION						
Proforma A Normalized Revenues w/Misc. Rev.			$54,139,971	$6,405,146	$41,980,122	$5,754,703
Less: Proforma A Equalized Revenues w/Misc. Rev.			54,139,970	5,816,168	43,609,913	4,713,889
Proforma A Subsidy			$1	$588,978	($1,629,792)	$1,040,814
Proposed Subsidy Reduction Percentage				25.00%	18.15%	14.27%
Proforma B Subsidy			$1	$441,734	($1,333,990)	$892,257
Proforma B Equalized Revenues w/Misc. Rev.			$61,797,389	$6,940,835	$49,994,108	$4,862,446
Proforma B Normalized Revenues w/Misc. Rev.			$61,797,390	$7,382,569	$48,660,118	$5,754,703
TAX CALCULATIONS						
Utility Receipts Taxes						
Total Proforma B Normal Revenues			$61,797,390	$7,382,569	$48,660,118	$5,754,703
Less: Uncollectible Expense	10	Uncollectibles Analysis	0	0	0	0
Less: Statutory Exemption			0	0	0	0
Income for Utility Receipts Taxes			$61,797,390	$7,382,569	$48,660,118	$5,754,703
Utility Receipts Tax Rate			1.40%	1.40%	1.40%	1.40%
Utility Receipts Taxes			$865,163	$103,356	$681,242	$80,566
Net Operating Income						
Total Proforma B Normal Revenues w/Misc. Rev.			$61,797,390	$7,382,569	$48,660,118	$5,754,703
Less: Operation and Maintenance Expenses			(19,744,367)	(2,557,426)	(16,859,437)	(327,505)
Less: Fuel Costs			(31,192,720)	(2,826,848)	(24,086,869)	(4,279,003)
Less: Depreciation Expense			(2,442,977)	(360,805)	(2,039,126)	(43,046)
Less: Other Taxes			(608,595)	(78,829)	(519,671)	(10,095)
Less: Utility Receipts Taxes			(865,163)	(103,356)	(681,242)	(80,566)
Less: Property Taxes			(421,879)	(61,896)	(351,783)	(8,199)
Net Operating Income			$6,521,688	$1,393,409	$4,121,991	$1,006,289
Total Rate Base			$79,341,424	$11,653,104	$66,149,065	$1,539,254
Rate of Return			8.22%	11.96%	6.23%	65.38%

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE ONE
SUMMARY OF PROFORMA REVENUES

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-2S
SCHEDULE 6

Proforma A Normalized Revenues	NO.	ALLOCATION METHOD	TOTAL	Rate 1	Rate 2	Rate 3
Proforma A Normalized Revenues w/o Misc. Rev.			$36,534,670	$4,322,313	$28,328,976	$3,883,382
Proforma A Normalized Miscellaneous Revenues			17,605,300	2,082,833	13,651,146	1,871,321
Total Proforma A Normalized Revenues w/Misc. Rev.			$54,139,971	$6,405,146	$41,980,122	$5,754,703
Proforma A Equalized Revenues						
Proforma A Equalized Revenues w/o Misc. Rev.			$36,534,669	$3,733,335	$29,958,767	$2,842,568
Proforma A Equalized Miscellaneous Revenues			17,605,300	2,082,833	13,651,146	1,871,321
Total Proforma A Equalized Revenues w/Misc. Rev.			$54,139,970	$5,816,168	$43,609,913	$4,713,889
Proforma B Equalized Revenues						
Proforma B Equalized Revenues w/o Misc. Rev.			$44,192,088	$4,858,002	$36,342,962	$2,991,124
Proforma B Equalized Miscellaneous Revenues			17,605,300	2,082,833	13,651,146	1,871,321
Total Proforma B Equalized Revenues w/Misc. Rev.			$61,797,389	$6,940,835	$49,994,108	$4,862,446
Proforma B Normalized Revenues						
Proforma B Normalized Revenues w/o Misc. Rev.			$44,192,089	$5,299,736	$35,008,972	$3,883,382
Proforma B Normalized Miscellaneous Revenues			17,605,300	2,082,833	13,651,146	1,871,321
Total Proforma B Normalized Revenues w/Misc. Rev.			$61,797,390	$7,382,569	$48,660,118	$5,754,703

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE ONE
NORMALIZED COST OF SERVICE AT PRESENT RATES

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-2S
SCHEDULE 7

	TOTAL	Rate 1	Rate 2	Rate 3
OPERATING REVENUES:				
Revenue from Fuel Sales	$36,534,670	$4,322,313	$28,328,976	$3,883,382
Miscellaneous Revenues	17,605,300	2,082,833	13,651,146	1,871,321
Total Operating Revenues	$54,139,971	$6,405,146	$41,980,122	$5,754,703
OPERATING EXPENSES				
FAC Fuel	$14,201,026	$1,058,431	$10,939,507	$2,203,087
Line Loss Fuel	$5,524,199	$411,730	$4,255,468	$857,001
Special Contract Fuel	$11,467,495	$1,356,687	$8,891,893	$1,218,915
Plant Operation & Maintenance Expense	$8,848,167	$977,762	$7,772,168	$98,237
Distribution Operation & Maintenance Expense	$2,533,396	$274,437	$2,168,322	$90,637
Customer Ops/Metering Expenses	$395,666	$273,269	$115,920	$6,477
Administrative and General	$7,967,139	$1,031,958	$6,803,027	$132,153
Total Depreciation and Amortization Expense	$2,442,977	360,805	2,039,126	43,046
Other Taxes	$608,595	$78,829	$519,671	$10,095
Property Taxes	$421,879	$61,896	$351,783	$8,199
Utility Receipts Taxes	$757,960	$89,672	$587,722	$80,566
Total Operating Expenses	$55,168,497	$5,975,476	$44,444,607	$4,748,414
Net Operating Income	($1,028,527)	$429,670	($2,464,486)	$1,006,289
Total Rate Base	$79,341,424	$11,653,104	$66,149,065	$1,539,254
Rate of Return	-1.30%	3.69%	-3.73%	65.38%

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE ONE
EQUALIZED COST OF SERVICE AT PRESENT RATES

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-2S
SCHEDULE 7

	TOTAL	Rate 1	Rate 2	Rate 3
OPERATING REVENUES:				
Revenue from Fuel Sales	$36,534,669	$3,733,335	$29,958,767	$2,842,568
Miscellaneous Revenues	17,605,300	2,082,833	13,651,146	1,871,321
Total Operating Revenues	$54,139,970	$5,816,168	$43,609,913	$4,713,889
OPERATING EXPENSES				
FAC Fuel	$14,201,026	$1,058,431	$10,939,507	$2,203,087
Line Loss Fuel	$5,524,199	$411,730	$4,255,468	$857,001
Special Contract Fuel	$11,467,495	$1,356,687	$8,891,893	$1,218,915
Plant Operation & Maintenance Expense	$8,848,167	$977,762	$7,772,168	$98,237
Distribution Operation & Maintenance Expense	$2,533,396	$274,437	$2,168,322	$90,637
Customer Ops/Metering Expenses	$395,666	$273,269	$115,920	$6,477
Administrative and General	$7,967,139	$1,031,958	$6,803,027	$132,153
Total Depreciation and Amortization Expense	$2,442,977	360,805	2,039,126	43,046
Other Taxes	608,595	78,829	519,671	10,095
Property Taxes	421,879	61,896	351,783	8,199
Utility Receipts Taxes	757,960	81,426	610,539	65,994
Total Operating Expenses	$55,168,497	$5,967,230	$44,467,424	$4,733,843
Net Operating Income	($1,028,528)	($151,063)	($857,511)	($19,954)
Total Rate Base	$79,341,424	$11,653,104	$66,149,065	$1,539,254
Rate of Return	-1.30%	-1.30%	-1.30%	-1.30%

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE ONE
EQUALIZED COST OF SERVICE AT PROPOSED RATES

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-2S
SCHEDULE 7
PAGE 3 OF 4

	TOTAL	Rate 1	Rate 2	Rate 3
OPERATING REVENUES:				
Revenue from Fuel Sales	$44,192,088	$4,858,002	$36,342,962	$2,991,124
Miscellaneous Revenues	17,605,300	2,082,833	13,651,146	1,871,321
Total Operating Revenues	$61,797,389	$6,940,835	$49,994,108	$4,862,446
OPERATING EXPENSES				
FAC Fuel	$14,201,026	$1,058,431	$10,939,507	$2,203,087
Line Loss Fuel	$5,524,199	$411,730	$4,255,468	$857,001
Special Contract Fuel	$11,467,495	$1,356,687	$8,891,893	$1,218,915
Plant Operation & Maintenance Expense	$8,848,167	$977,762	$7,772,168	$98,237
Distribution Operation & Maintenance Expense	$2,533,396	$274,437	$2,168,322	$90,637
Customer Ops/Metering Expenses	$395,666	$273,269	$115,920	$6,477
Administrative and General	$7,967,139	$1,031,958	$6,803,027	$132,153
Total Depreciation and Amortization Expense	$2,442,977	$360,805	$2,039,126	$43,046
Other Taxes	608,595	78,829	519,671	10,095
Property Taxes	421,879	61,896	351,783	8,199
Utility Receipts Taxes	865,163	97,172	699,918	68,074
Total Operating Expenses	$55,275,701	$5,982,976	$44,556,803	$4,735,922
Net Operating Income	$6,521,688	$957,859	$5,437,305	$126,523
Total Rate Base	$79,341,424	$11,653,104	$66,149,065	$1,539,254
Rate of Return	8.22%	8.22%	8.22%	8.22%

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE ONE
NORMALIZED COST OF SERVICE AT PROPOSED RATES

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-2S
SCHEDULE 7

	TOTAL	Rate 1	Rate 2	Rate 3
OPERATING REVENUES:				
Revenue from Fuel Sales	$44,192,089	$5,299,736	$35,008,972	$3,883,382
Miscellaneous Revenues	17,605,300	2,082,833	13,651,146	1,871,321
Total Operating Revenues	$61,797,390	$7,382,569	$48,660,118	$5,754,703
OPERATING EXPENSES				
FAC Fuel	$14,201,026	$1,058,431	$10,939,507	$2,203,087
Line Loss Fuel	$5,524,199	$411,730	$4,255,468	$857,001
Special Contract Fuel	$11,467,495	$1,356,687	$8,891,893	$1,218,915
Plant Operation & Maintenance Expense	$8,848,167	$977,762	$7,772,168	$98,237
Distribution Operation & Maintenance Expense	$2,533,396	$274,437	$2,168,322	$90,637
Customer Ops/Metering Expenses	$395,666	$273,269	$115,920	$6,477
Administrative and General	$7,967,139	$1,031,958	$6,803,027	$132,153
Total Depreciation and Amortization Expense	2,442,977	360,805	2,039,126	43,046
Other Taxes	608,595	78,829	519,671	10,095
Property Taxes	421,879	61,896	351,783	8,199
Utility Receipts Taxes	865,163	103,356	681,242	80,566
Total Operating Expenses	$55,275,701	$5,989,160	$44,538,127	$4,748,414
Net Operating Income	$6,521,688	$1,393,409	$4,121,991	$1,006,289
Total Rate Base	$79,341,424	$11,653,104	$66,149,065	$1,539,254
Rate of Return	8.22%	11.96%	6.23%	65.38%

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE ONE
STATEMENT OF OPERATING INCOME BASED UPON PROFORMA A REVENUES
AT PRESENT RATES OF RETURN

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006 **PETITIONER'S EXHIBIT NO. KAH-2S**
TYPE OF FILING: SUPPLEMENTAL DIRECT **SCHEDULE 8**
WITNESS: HEID

Line No.	Description (Column A)	Total (B)	Rate 1 (C)	Rate 2 (D)	Rate 3 (D)
	Operating Revenues				
(1)	Revenues From Steam Sales	$36,534,670	$4,322,313	$28,328,976	$3,883,382
(2)	Miscellaneous Revenues	$17,605,300	$2,082,833	$13,651,146	$1,871,321
(3)	Total	$54,139,971	$6,405,146	$41,980,122	$5,754,703
	Operating Expenses				
(4)	Fuel	$31,192,720	$2,826,848	$24,086,869	$4,279,003
(5)	Operation and Maintenance	19,744,367	2,557,426	16,859,437	327,505
(6)	Depreciation and Amortization	2,442,977	360,805	2,039,126	43,046
(7)	Taxes Other Than Income Taxes	1,788,434	230,398	1,459,176	98,860
(8)	Total	$55,168,497	$5,975,476	$44,444,607	$4,748,414
(9)	Net Operating Income	($1,028,527)	$429,670	($2,464,486)	$1,006,289
(10)	Original Cost Rate Base	$79,341,424	$11,653,104	$66,149,065	$1,539,254
(11)	Rate of Return on Rate Base	-1.30%	3.69%	-3.73%	65.38%
(12)	Earnings Index	100%	-284%	288%	-5044%

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE ONE
STATEMENT OF OPERATING INCOME BASED UPON PROFORMA A REVENUES
AT EQUALIZED RATES OF RETURN

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-2S
SCHEDULE 9

Line No.	Description (Column A)	Total (B)	Rate 1 (C)	Rate 2 (D)	Rate 3 (D)
	Operating Revenues				
(1)	Revenues From Steam Sales	$36,534,669	$3,733,335	$29,958,767	$2,842,568
(2)	Miscellaneous Revenues	$17,605,300	$2,082,833	$13,651,146	$1,871,321
(3)	Total	$54,139,970	$5,816,168	$43,609,913	$4,713,889
	Operating Expenses				
(4)	Fuel	$31,192,720	$2,826,848	$24,086,869	$4,279,003
(5)	Operation and Maintenance	19,744,367	$2,557,426	$16,859,437	$327,505
(6)	Depreciation and Amortization	2,442,977	360,805	2,039,126	43,046
(7)	Taxes Other Than Income Taxes	1,788,434	222,152	1,481,993	84,289
(8)	Total	$55,168,497	$5,967,230	$44,467,424	$4,733,843
(9)	Net Operating Income	($1,028,528)	($151,063)	($857,511)	($19,954)
(10)	Original Cost Rate Base	$79,341,424	$11,653,104	$66,149,065	$1,539,254
(11)	Rate of Return on Rate Base	-1.30%	-1.30%	-1.30%	-1.30%
(12)	Earnings Index	100%	100%	100%	100%

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE ONE
STATEMENT OF OPERATING INCOME BASED UPON PROFORMA B REVENUES
AT EQUALIZED RATES OF RETURN

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-2S
SCHEDULE 10

Line No.	Description (Column A)	Total (B)	Rate 1 (C)	Rate 2 (D)	Rate 3 (D)
	Operating Revenues				
(1)	Revenues From Steam Sales	$44,192,088	$4,858,002	$36,342,962	$2,991,124
(2)	Miscellaneous Revenues	$17,605,300	$2,082,833	$13,651,146	$1,871,321
(3)	Total	$61,797,389	$6,940,835	$49,994,108	$4,862,446
	Operating Expenses				
(4)	Fuel	$31,192,720	$2,826,848	$24,086,869	$4,279,003
(5)	Operation and Maintenance	19,744,367	2,557,426	16,859,437	327,505
(6)	Depreciation and Amortization	2,442,977	360,805	2,039,126	43,046
(7)	Taxes Other Than Income Taxes	1,895,637	237,897	1,571,371	86,369
(8)	Total	$55,275,701	$5,982,976	$44,556,803	$4,735,922
(9)	Net Operating Income	$6,521,688	$957,859	$5,437,305	$126,523
(10)	Original Cost Rate Base	$79,341,424	$11,653,104	$66,149,065	$1,539,254
(11)	Rate of Return on Rate Base	8.22%	8.22%	8.22%	8.22%
(12)	Earnings Index	100%	100%	100%	100%

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE ONE
STATEMENT OF OPERATING INCOME BASED UPON PROFORMA B REVENUES
AT PROPOSED RATES OF RETURN

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-2S
SCHEDULE 11

Line No.	Description (Column A)	Total (B)	Rate 1 (C)	Rate 2 (D)	Rate 3 (D)
	Operating Revenues				
(1)	Revenues From Steam Sales	$44,192,089	$5,299,736	$35,008,972	$3,883,382
(2)	Miscellaneous Revenues	$17,605,300	$2,082,833	$13,651,146	$1,871,321
(3)	Total	$61,797,390	$7,382,569	$48,660,118	$5,754,703
	Operating Expenses				
(4)	Fuel	$31,192,720	$2,826,848	$24,086,869	$4,279,003
(5)	Operation and Maintenance	19,744,367	2,557,426	16,859,437	327,505
(6)	Depreciation and Amortization	2,442,977	360,805	2,039,126	43,046
(7)	Taxes Other Than Income Taxes	1,895,637	244,082	1,552,696	98,860
(8)	Total	$55,275,701	$5,989,160	$44,538,127	$4,748,414
(9)	Net Operating Income	$6,521,688	$1,393,409	$4,121,991	$1,006,289
(10)	Original Cost Rate Base	$79,341,424	$11,653,104	$66,149,065	$1,539,254
(11)	Rate of Return on Rate Base	8.22%	11.96%	6.23%	65.38%
(12)	Earnings Index	100%	145%	76%	795%

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE ONE
COMPARISON OF PROFORMA OPERATING REVENUES AND RESULTING DOLLAR SUBSIDY LEVELS AT PRESENT AND PROPOSED RATES

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-2S
SCHEDULE 12

		PROFORMA REVENUES - PRESENT RATES			PROFORMA REVENUES - PROPOSED RATES				
								Subsidy Reduction	
Line No.	Rate Schedule (A)	Revenues At Present Rates (B)	Revenues Required For Equalized Returns (C)	Present Subsidy (D)	Revenues Required For Equalized Returns (E)	Revenues At Proposed Rates (F)	Proposed Subsidy (G)	Amount (H)	Percentage (I)
(1)	Rate 1	$6,405,146	$5,816,168	$588,978	$6,940,835	$7,382,569	$441,734	$147,245	25.00%
(2)	Rate 2	$41,980,122	$43,609,913	($1,629,792)	$49,994,108	$48,660,118	($1,333,990)	($295,802)	18.15%
(3)	Rate 3	$5,754,703	$4,713,889	$1,040,814	$4,862,446	$5,754,703	$892,257	$148,557	14.27%
(4)	Total	$54,139,971	$54,139,970	$1	$61,797,389	$61,797,390	$1	($0)	

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE ONE
COMPARISON OF STEAM SALES REVENUES AT PRESENT AND PROPOSED RATES

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-2S
SCHEDULE 13

		STEAM SALES REVENUES			
Line No.	Rate Schedule (A)	Revenues At Present Rates (B)	Revenues At Proposed Rates (C)	Increase or (Decrease) Amount (D)	Increase or (Decrease) Percentage (E)
(1)	Rate 1	$4,322,313	$5,299,736	$977,423	22.61%
(2)	Rate 2	$28,328,976	$35,008,972	$6,679,996	23.58%
(3)	Rate 3	$3,883,382	$3,883,382	$0	0.00%
(4)	Total	$36,534,670	$44,192,090	$7,657,419	20.96%

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE ONE
COMPARISON OF REVENUES AT PRESENT AND PROPOSED RATES

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-2S
SCHEDULE 14

DESCRIPTION	Number of Bills	Billing Quantities (therms)	Present Rates ($/therm)	Proforma A FAC ($/therm)	Effective Present Rates ($/therm)	Revenue at Present Rates	Proposed Margin Rates ($/therm)	Proforma B FAC ($/therm)	Proposed Effective Rates ($/therm)	Revenue at Proposed Rates	Increase in Revenues Amount	Increase in Revenues Percent
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
RATE 1 - GENERAL STEAM SERVICE												
1-1000 Sq. Ft. EDR	180		$32.00		$32.00	$5,760	$38.00		$38.00	$6,840	$1,080	18.75%
1001-10,000 Sq. Ft. EDR	1,304		$80.00		$80.00	$104,320	$95.00		$95.00	$123,880	$19,560	18.75%
10,001-20,000 Sq. Ft. EDR	445		$160.00		$160.00	$71,200	$190.00		$190.00	$84,550	$13,350	18.75%
Over 20,000 Sq. Ft. EDR	96		$320.00		$320.00	$30,720	$380.00		$380.00	$36,480	$5,760	18.75%
Block 1		1,042,651	$1.1600	$0.2330	$1.3930	$1,452,419	$1.2645	$0.4500	$1.7145	$1,787,600	$335,181	23.08%
Block 2		1,597,139	$0.9900	$0.2330	$1.2230	$1,953,311	$1.0517	$0.4500	$1.5017	$2,398,385	$445,074	22.79%
Block 3		627,408	$0.8900	$0.2330	$1.1230	$704,583	$0.9239	$0.4500	$1.3739	$861,981	$157,398	22.34%
Total Therms and Revenues	2,025	3,267,198				$4,322,313				$5,299,716	$977,403	22.61%
RATE 2 - DEMAND RATE SERVICE												
Service Charge	859		$0.00		$0.00	$0	$0.00		$0.00	$0	$0	N/A
Demand Charge	91,518		$104.39		$104.39	$9,553,536	$127.00		$127.00	$11,622,752	$2,069,216	21.66%
Energy Charge		33,768,403	$0.3230	$0.2330	$0.5560	$18,775,440	$0.2426	$0.4500	$0.6926	$23,387,191	$4,611,751	24.56%
Total Therms and Revenues	92,377	33,768,403				$28,328,976				$35,009,943	$6,680,967	23.58%
RATE 3 - ADDITIONAL SUMMER SERVICE												
Service Charge-Provision A (Covanta)	12		$ -		$0.00	$0			$0.00	$0	$0	N/A
Service Charge-Provision B (CTE)	36		$ -		$0.0000	$0			$0.0000	$0	$0	N/A
Energy Charge (Covanta)-Provision A		8,639,946	$ 0.1500	$0.1168	$0.2668	$2,305,484	$0.0668	$0.2000	$0.2668	$2,305,484	$0	0.00%
Energy Charge (CTE)-Provision B		2,960,374	$ 0.3000	$0.2330	$0.5330	$1,577,898	$0.0830	$0.4500	$0.5330	$1,577,898	$0	0.00%
Total Therms and Revenues	48	11,600,320				$3,883,382				$3,883,382	$0	0.00%
TOTAL THERMS AND REVENUE	94,450	48,635,921				$36,534,671				$44,193,041	$7,658,370	20.96%
MISCELLANEOUS REVENUES						17,605,300				17,605,300		
TOTAL REVENUES						$54,139,971				$61,798,341	$7,658,370	14.15%

Citizens Gas & Coke Utility
2020 North Meridian Street
Indianapolis, Indiana 46202

Substitute First Revised Page No. 101
Superseding Original Page No. 101

RATE 1
GENERAL STEAM SERVICE

AVAILABILITY:
Available for space heating and other general service to customers located adjacent to the Utility's existing steam distribution mains. Not available for customers having an EDR (Equivalent Direct Radiation) of more than 30,000 square feet.

This service will be supplied on a year-round basis.

RATE:
The sum of the Customer Charge and the Energy Charge.

Customer Charge	
0-1000 Sq. Ft. EDR	$38.00/Month
1001-10000	95.00
10001-20000	190.00
20001-30000	380.00

Energy Charge	
Any part of the first 1000 Therms	$1.2645 per Therm
Any part of the next 4000 Therms	1.0517 per Therm
Over 5000 Therms	0.9239 per Therm

MINIMUM BILL PER MONTH:
The minimum bill will be the customer charge. Seasonal customers will receive bills during all months of the year even when no energy charge is due.

CONTRACT RIDERS APPLICABLE:
No. 1 - See Page 201.

PAYMENT:
The above rates and charges are net. If the net bill is not paid within seventeen days after its date of issue, a collection charge will be added in the amount of ten percent of the first three dollars, plus three percent of the excess of three dollars.

Citizens Gas & Coke Utility
2020 North Meridian Street
Indianapolis, Indiana 46202

Substitute First Revised Page No. 101-B
Superseding Original Page No. 101-B

CONTRACT TERM:

Contracts, except special contracts, shall be for an initial term of three years and shall continue in effect thereafter for successive terms of one year each unless written notice of intention to terminate is given by either party to the other at lease sixty days before the end of any term. Special contracts shall be for such term as may be agreed upon by the parties, subject to approval of the Indiana Utility Regulatory Commission.

Citizens Gas & Coke Utility
2020 North Meridian Street
Indianapolis, Indiana 46202

Substitute First Revised Page No. 102
Superseding Original Page No. 102

RATE 2
DEMAND RATE SERVICE

AVAILABILITY:
Available to all steam customers located adjacent to the steam mains of the Utility, providing they contract for a minimum Billing Demand of 50 Therms per hour in the Month of maximum usage during the year, and providing billing will be continuous throughout all twelve Months of the year.

RATE:
The sum of the Demand Charge and the Energy Charge.

Demand Charge

$127.00 per Therm per Hour

Energy Charge

$ 0.2426 per Therm

BILLING DEMAND:
The Billing Demand shall be the maximum average Demand for a thirty-minute period, measured in Therms per hour, during the Month for which the bill is rendered, but in no case shall the Billing Demand be less than seventy-five per cent of the maximum thirty-minute Demand during the preceding eleven Months.

Where the character of the load is such that the steam demands fluctuate violently between maximum and minimum so that determination of an average thirty (30) minute Demand is impractical, then the Billing Demand will be based upon the average of the three highest peaks during the thirty (30) minute period.

MINIMUM MONTHLY BILL:
The minimum Monthly charge shall be the demand charge and, in no case, less than $4,762.50 per Month.

CONTRACT RIDERS APPLICABLE:
No. 1 - See Page 201.

Citizens Gas & Coke Utility
2020 North Meridian Street
Indianapolis, Indiana 46202

Substitute First Revised Page No. 102-B
Superseding Original Page No. 102-B

PAYMENT:
The above rates and charges are net. If the net bill is not paid within seventeen days after its date of issue, a collection charge will be added in the amount of ten percent of the first three dollars plus three percent of the excess of three dollars.

CONTRACT TERM:
Contracts shall be for an initial term of not less than three years and shall continue in effect thereafter for successive like terms. The Utility may require a special contract when unusual construction or equipment expense is necessary to furnish the service subject to approval of the Indiana Utility Regulatory Commission.

Citizens Gas & Coke Utility
2020 North Meridian Street
Indianapolis, Indiana 46202

First Revised Page No. 103
Superceding Original Page No. 103

RATE 3
ADDITIONAL SUMMER SERVICE

AVAILABILITY:
Available to all steam customers for steam chilling and similar warm weather applications during the Months of April through October and on any day during the Months of November through March, when the mean temperature of the preceding day was 40°F. or higher as measured by the National Weather Office at the Indianapolis International Airport, unless the Utility notifies the customer that such Additional Summer Steam is not available. Customer agrees to contract for a minimum of 50 Therms per hour average usage for at least four Months of Additional Summer Steam during the Months of April through October, and provided further that the Utility will not furnish added capacity in services or mains at its expense under this rate.

In the event that the availability of Additional Summer Steam from the Resource Recovery Facility is not sufficient to supply all customers served under this rate under Provision A during any period, each customer will be provided up to the contract maximum hourly usage, in order of contract date, up to the amount of steam available during that period with this steam service billed under Provision B.

RATE:
Provision A:
Steam provided under this rate when available from the Resource Recovery Facility will be the sum of the following rate plus an adjustment for the actual cost of Resource Recovery Facility steam as provided for in the service contract.

ENERGY CHARGE

$ .0668 per therm

Provision B:
Steam provided under this rate when not available from the Resource Recovery Facility will be:

ENERGY CHARGE

$ .0830 per therm

Citizens Gas & Coke Utility
2020 North Meridian Street
Indianapolis, Indiana 46202

First Revised Page No. 103-B
Superceding Original Page No. 103-B

BILLING DEMAND:
No Billing Demand will be charged under this rate whether the steam is supplied under provision A or provision B above.

MINIMUM BILL PER MONTH:
The minimum Monthly charge shall be $20.00 during the Months of April through October.

CONTRACT RIDERS APPLICABLE:
No. 1 - See Page 201 (Under Provision B Only).

CONTRACT:
Contracts shall be for an initial term of not less than three years and shall continue in effect for successive like terms. The contract shall specify the anticipated maximum hourly usage provided that the amount specified in the contract shall be adjusted after one year to reflect actual maximum usage. The Utility shall require a special contract in the event any added capacity is required specifying the method of payment for such capacity. Existing contracts shall continue in effect.

Citizens Gas & Coke Utility
2020 North Meridian Street
Indianapolis, Indiana 46202

Eighth Revised Page No. 201
Superseding Seventh Revised Page No. 201

STANDARD CONTRACT RIDER NO. 1
FUEL COST ADJUSTMENT
(Applicable to Rate 1 and Rate 2)

A fuel cost adjustment shall be made in accordance with the following provisions:

A. The fuel cost adjustment per therm shall be calculated by multiplying the Therms billed by an Adjustment Factor established according to the following formula:

$$\text{Adjustment Factor} = \frac{F}{S}$$

where:

1. "F" is the estimated expense of fuel based on a one year average cost beginning with the Month of June, xxxx, and consisting of the following costs:

   (a) the average cost of fuel burned for the production of steam in the Utility's plants, including only those items listed in Account 151;

   (b) the average cost of purchases from the Indianapolis Resource Recovery Project (Covanta) of displaced net steam to mains.

2. "S" is the estimated applicable sales in Therms for the same estimated period set forth in "F".

B. The Adjustment Factor as computed above shall be further modified to allow the recovery of gross receipts, taxes and other similar revenue based tax charges occasioned by the fuel adjustment revenues.

C. The Adjustment Factor shall be further modified to reflect the difference between incremental fuel cost billed and the incremental fuel cost actually experienced during the one year period ending with the Month of January, xxxx.

D. The Adjustment Factor to be effective with meter readings of June 1, xxxx, for all General Service and Demand Rate Accounts will be $0.xxxxx per Therm.

CITIZENS THERMAL ENERGY

Dollar Impact of Cause No. 43201 on Typical Rate No. 1 General Steam Service Customer (Phase 1 w/o Mfg)
In Comparison to Current Rates in Effect

CURRENT RATES

Therms	Facilities Charge	First 1000	Next 4000	Over 5000	Proforma A FAC	Current Bill w/ Fuel
50	$160.00	$1.1600	$0.9900	$0.8900	$0.23300	229.65
100	160.00	1.1600	0.9900	0.8900	$0.23300	299.30
200	160.00	1.1600	0.9900	0.8900	$0.23300	438.60
300	160.00	1.1600	0.9900	0.8900	$0.23300	577.90
400	160.00	1.1600	0.9900	0.8900	$0.23300	717.20
500	160.00	1.1600	0.9900	0.8900	$0.23300	856.50
600	160.00	1.1600	0.9900	0.8900	$0.23300	995.80
700	160.00	1.1600	0.9900	0.8900	$0.23300	1,135.10
800	160.00	1.1600	0.9900	0.8900	$0.23300	1,274.40
900	160.00	1.1600	0.9900	0.8900	$0.23300	1,413.70
1,000	160.00	1.1600	0.9900	0.8900	$0.23300	1,553.00
2,000	160.00	1.1600	0.9900	0.8900	$0.23300	2,776.00
4,000	160.00	1.1600	0.9900	0.8900	$0.23300	5,222.00
6,000	160.00	1.1600	0.9900	0.8900	$0.23300	7,568.00
8,000	160.00	1.1600	0.9900	0.8900	$0.23300	9,814.00
10,000	160.00	1.1600	0.9900	0.8900	$0.23300	12,060.00
12,000	160.00	1.1600	0.9900	0.8900	$0.23300	14,306.00
14,000	160.00	1.1600	0.9900	0.8900	$0.23300	16,552.00
16,000	160.00	1.1600	0.9900	0.8900	$0.23300	18,798.00
18,000	160.00	1.1600	0.9900	0.8900	$0.23300	21,044.00
20,000	160.00	1.1600	0.9900	0.8900	$0.23300	23,290.00

PROPOSED RATES

Therms	Facilities Charge	First 1000	Next 4000	Over 5000	Proforma B FAC	Proposed Bill w/ Fuel	$ Diff. Current vs Proposed	% Diff. Current vs Proposed
50	$190.00	$1.2645	$1.0517	$0.9239	$0.45000	275.73	46.08	20.07%
100	190.00	1.2645	1.0517	0.9239	$0.45000	361.45	62.15	20.77%
200	190.00	1.2645	1.0517	0.9239	$0.45000	532.90	94.30	21.50%
300	190.00	1.2645	1.0517	0.9239	$0.45000	704.35	126.45	21.88%
400	190.00	1.2645	1.0517	0.9239	$0.45000	875.80	158.60	22.11%
500	190.00	1.2645	1.0517	0.9239	$0.45000	1,047.25	190.75	22.27%
600	190.00	1.2645	1.0517	0.9239	$0.45000	1,218.70	222.90	22.38%
700	190.00	1.2645	1.0517	0.9239	$0.45000	1,390.15	255.05	22.47%
800	190.00	1.2645	1.0517	0.9239	$0.45000	1,561.60	287.20	22.54%
900	190.00	1.2645	1.0517	0.9239	$0.45000	1,733.05	319.35	22.59%
1,000	190.00	1.2645	1.0517	0.9239	$0.45000	1,904.50	351.50	22.63%
2,000	190.00	1.2645	1.0517	0.9239	$0.45000	3,406.20	630.20	22.70%
4,000	190.00	1.2645	1.0517	0.9239	$0.45000	6,409.60	1,187.60	22.74%
6,000	190.00	1.2645	1.0517	0.9239	$0.45000	9,285.20	1,717.20	22.69%
8,000	190.00	1.2645	1.0517	0.9239	$0.45000	12,033.00	2,219.00	22.61%
10,000	190.00	1.2645	1.0517	0.9239	$0.45000	14,780.80	2,720.80	22.56%
12,000	190.00	1.2645	1.0517	0.9239	$0.45000	17,528.60	3,222.60	22.53%
14,000	190.00	1.2645	1.0517	0.9239	$0.45000	20,276.40	3,724.40	22.50%
16,000	190.00	1.2645	1.0517	0.9239	$0.45000	23,024.20	4,226.20	22.48%
18,000	190.00	1.2645	1.0517	0.9239	$0.45000	25,772.00	4,728.00	22.47%
20,000	190.00	1.2645	1.0517	0.9239	$0.45000	28,519.80	5,229.80	22.46%

CITIZENS GAS & COKE UTILITY

Dollar Impact of Cause No. 43201 on Typical Rate No. 2 Demand Rate Steam Service (Phase 1 - w/o Mfg)
In Comparison to Current Rates in Effect

CURRENT RATES

Therms	Load Factor 25% Demand Amount	Energy Charge	Demand Charge	Proforma A FAC	Current Bill w/ FAC
1,000	5.48	$0.3230	$104.39	$0.2330	$1,128.00
2,000	10.96	0.3230	$104.39	$0.2330	$2,256.00
4,000	21.92	0.3230	$104.39	$0.2330	$4,512.00
6,000	32.88	0.3230	$104.39	$0.2330	$6,768.00
8,000	43.84	0.3230	$104.39	$0.2330	$9,024.00
10,000	54.79	0.3230	$104.39	$0.2330	$11,280.00
15,000	82.19	0.3230	$104.39	$0.2330	$16,920.00
20,000	109.59	0.3230	$104.39	$0.2330	$22,560.00
25,000	136.99	0.3230	$104.39	$0.2330	$28,200.00
30,000	164.38	0.3230	$104.39	$0.2330	$33,840.00
35,000	191.78	0.3230	$104.39	$0.2330	$39,480.00
40,000	219.18	0.3230	$104.39	$0.2330	$45,120.00
45,000	246.58	0.3230	$104.39	$0.2330	$50,760.00
50,000	273.97	0.3230	$104.39	$0.2330	$56,400.00
60,000	328.77	0.3230	$104.39	$0.2330	$67,680.00
70,000	383.56	0.3230	$104.39	$0.2330	$78,960.00
80,000	438.36	0.3230	$104.39	$0.2330	$90,240.00
90,000	493.15	0.3230	$104.39	$0.2330	$101,520.00
100,000	547.95	0.3230	$104.39	$0.2330	$112,800.00
200,000	1,095.89	0.3230	$104.39	$0.2330	$225,600.00
300,000	1,643.84	0.3230	$104.39	$0.2330	$338,400.00
400,000	2,191.78	0.3230	$104.39	$0.2330	$451,200.00
500,000	2,739.73	0.3230	$104.39	$0.2330	$564,000.00
600,000	3,287.67	0.3230	$104.39	$0.2330	$676,800.00
700,000	3,835.62	0.3230	$104.39	$0.2330	$789,600.00
800,000	4,383.56	0.3230	$104.39	$0.2330	$902,400.00

PROPOSED RATES

Therms	Load Factor 25% Demand Amount	Energy Charge	Demand Charge	Proforma B FAC	Proposed Bill w/ Fuel	$ Diff. Current vs Proposed	% Diff. Current vs Proposed
1,000	5.48	$0.2426	$127.00	$0.4500	$1,388.49	$260.49	23.09%
2,000	10.96	$0.2426	$127.00	$0.4500	$2,776.98	$520.98	23.09%
4,000	21.92	$0.2426	$127.00	$0.4500	$5,553.96	$1,041.96	23.09%
6,000	32.88	$0.2426	$127.00	$0.4500	$8,330.94	$1,562.94	23.09%
8,000	43.84	$0.2426	$127.00	$0.4500	$11,107.92	$2,083.92	23.09%
10,000	54.79	$0.2426	$127.00	$0.4500	$13,884.90	$2,604.90	23.09%
15,000	82.19	$0.2426	$127.00	$0.4500	$20,827.36	$3,907.36	23.09%
20,000	109.59	$0.2426	$127.00	$0.4500	$27,769.81	$5,209.81	23.09%
25,000	136.99	$0.2426	$127.00	$0.4500	$34,712.26	$6,512.26	23.09%
30,000	164.38	$0.2426	$127.00	$0.4500	$41,654.71	$7,814.71	23.09%
35,000	191.78	$0.2426	$127.00	$0.4500	$48,597.16	$9,117.16	23.09%
40,000	219.18	$0.2426	$127.00	$0.4500	$55,539.62	$10,419.62	23.09%
45,000	246.58	$0.2426	$127.00	$0.4500	$62,482.07	$11,722.07	23.09%
50,000	273.97	$0.2426	$127.00	$0.4500	$69,424.52	$13,024.52	23.09%
60,000	328.77	$0.2426	$127.00	$0.4500	$83,309.42	$15,629.42	23.09%
70,000	383.56	$0.2426	$127.00	$0.4500	$97,194.33	$18,234.33	23.09%
80,000	438.36	$0.2426	$127.00	$0.4500	$111,079.23	$20,839.23	23.09%
90,000	493.15	$0.2426	$127.00	$0.4500	$124,964.14	$23,444.14	23.09%
100,000	547.95	$0.2426	$127.00	$0.4500	$138,849.04	$26,049.04	23.09%
200,000	1,095.89	$0.2426	$127.00	$0.4500	$277,698.08	$52,098.08	23.09%
300,000	1,643.84	$0.2426	$127.00	$0.4500	$416,547.12	$78,147.12	23.09%
400,000	2,191.78	$0.2426	$127.00	$0.4500	$555,396.16	$104,196.16	23.09%
500,000	2,739.73	$0.2426	$127.00	$0.4500	$694,245.21	$130,245.21	23.09%
600,000	3,287.67	$0.2426	$127.00	$0.4500	$833,094.25	$156,294.25	23.09%
700,000	3,835.62	$0.2426	$127.00	$0.4500	$971,943.29	$182,343.29	23.09%
800,000	4,383.56	$0.2426	$127.00	$0.4500	$1,110,792.33	$208,392.33	23.09%

CITIZENS GAS & COKE UTILITY

Dollar Impact of Cause No. 43201 on Typical Rate No. 2 Demand Rate Steam Service (Phase 1 - w/o Mfg)
In Comparison to Current Rates in Effect

CURRENT RATES

Therms	Load Factor 50% Demand Amount	Energy Charge	Demand Charge	Proforma A FAC	Current Bill w/ FAC
1,000	2.74	$0.3230	$104.39	$0.2330	$842.00
2,000	5.48	0.3230	$104.39	$0.2330	$1,684.00
4,000	10.96	0.3230	$104.39	$0.2330	$3,368.00
6,000	16.44	0.3230	$104.39	$0.2330	$5,052.00
8,000	21.92	0.3230	$104.39	$0.2330	$6,736.00
10,000	27.40	0.3230	$104.39	$0.2330	$8,420.00
15,000	41.10	0.3230	$104.39	$0.2330	$12,630.00
20,000	54.79	0.3230	$104.39	$0.2330	$16,840.00
25,000	68.49	0.3230	$104.39	$0.2330	$21,050.00
30,000	82.19	0.3230	$104.39	$0.2330	$25,260.00
35,000	95.89	0.3230	$104.39	$0.2330	$29,470.00
40,000	109.59	0.3230	$104.39	$0.2330	$33,680.00
45,000	123.29	0.3230	$104.39	$0.2330	$37,890.00
50,000	136.99	0.3230	$104.39	$0.2330	$42,100.00
60,000	164.38	0.3230	$104.39	$0.2330	$50,520.00
70,000	191.78	0.3230	$104.39	$0.2330	$58,940.00
80,000	219.18	0.3230	$104.39	$0.2330	$67,360.00
90,000	246.58	0.3230	$104.39	$0.2330	$75,780.00
100,000	273.97	0.3230	$104.39	$0.2330	$84,200.00
200,000	547.95	0.3230	$104.39	$0.2330	$168,400.00
300,000	821.92	0.3230	$104.39	$0.2330	$252,600.00
400,000	1,095.89	0.3230	$104.39	$0.2330	$336,800.00
500,000	1,369.86	0.3230	$104.39	$0.2330	$421,000.00
600,000	1,643.84	0.3230	$104.39	$0.2330	$505,200.00
700,000	1,917.81	0.3230	$104.39	$0.2330	$589,400.00
800,000	2,191.78	0.3230	$104.39	$0.2330	$673,600.00

PROPOSED RATES

Therms	Load Factor 50% Demand Amount	Energy Charge	Demand Charge	Proforma B FAC	Proposed Bill w/ Fuel	$ Diff. Current vs Proposed	% Diff. Current vs Proposed
1,000	2.74	$0.2426	$127.00	$0.4500	$1,040.55	$198.55	23.58%
2,000	5.48	0.2426	$127.00	$0.4500	$2,081.09	$397.09	23.58%
4,000	10.96	0.2426	$127.00	$0.4500	$4,162.18	$794.18	23.58%
6,000	16.44	0.2426	$127.00	$0.4500	$6,243.27	$1,191.27	23.58%
8,000	21.92	0.2426	$127.00	$0.4500	$8,324.36	$1,588.36	23.58%
10,000	27.40	0.2426	$127.00	$0.4500	$10,405.45	$1,985.45	23.58%
15,000	41.10	0.2426	$127.00	$0.4500	$15,608.18	$2,978.18	23.58%
20,000	54.79	0.2426	$127.00	$0.4500	$20,810.90	$3,970.90	23.58%
25,000	68.49	0.2426	$127.00	$0.4500	$26,013.63	$4,963.63	23.58%
30,000	82.19	0.2426	$127.00	$0.4500	$31,216.36	$5,956.36	23.58%
35,000	95.89	0.2426	$127.00	$0.4500	$36,419.08	$6,949.08	23.58%
40,000	109.59	0.2426	$127.00	$0.4500	$41,621.81	$7,941.81	23.58%
45,000	123.29	0.2426	$127.00	$0.4500	$46,824.53	$8,934.53	23.58%
50,000	136.99	0.2426	$127.00	$0.4500	$52,027.26	$9,927.26	23.58%
60,000	164.38	0.2426	$127.00	$0.4500	$62,432.71	$11,912.71	23.58%
70,000	191.78	0.2426	$127.00	$0.4500	$72,838.16	$13,898.16	23.58%
80,000	219.18	0.2426	$127.00	$0.4500	$83,243.62	$15,883.62	23.58%
90,000	246.58	0.2426	$127.00	$0.4500	$93,649.07	$17,869.07	23.58%
100,000	273.97	0.2426	$127.00	$0.4500	$104,054.52	$19,854.52	23.58%
200,000	547.95	0.2426	$127.00	$0.4500	$208,109.04	$39,709.04	23.58%
300,000	821.92	0.2426	$127.00	$0.4500	$312,163.56	$59,563.56	23.58%
400,000	1,095.89	0.2426	$127.00	$0.4500	$416,218.08	$79,418.08	23.58%
500,000	1,369.86	0.2426	$127.00	$0.4500	$520,272.60	$99,272.60	23.58%
600,000	1,643.84	0.2426	$127.00	$0.4500	$624,327.12	$119,127.12	23.58%
700,000	1,917.81	0.2426	$127.00	$0.4500	$728,381.64	$138,981.64	23.58%
800,000	2,191.78	0.2426	$127.00	$0.4500	$832,436.16	$158,836.16	23.58%

CITIZENS GAS & COKE UTILITY

Dollar Impact of Cause No. 43201 on Typical Rate No. 2 Demand Rate Steam Service (Phase 1 - w/o Mfg)
In Comparison to Current Rates in Effect

CURRENT RATES

Therms	Load Factor 75% Demand Amount	Energy Charge	Demand Charge	Proforma A FAC	Current Bill w/ FAC
1,000	1.83	$0.3230	$104.39	$0.2330	$746.67
2,000	3.65	0.3230	$104.39	$0.2330	$1,493.33
4,000	7.31	0.3230	$104.39	$0.2330	$2,986.67
6,000	10.96	0.3230	$104.39	$0.2330	$4,480.00
8,000	14.61	0.3230	$104.39	$0.2330	$5,973.33
10,000	18.26	0.3230	$104.39	$0.2330	$7,466.67
15,000	27.40	0.3230	$104.39	$0.2330	$11,200.00
20,000	36.53	0.3230	$104.39	$0.2330	$14,933.33
25,000	45.66	0.3230	$104.39	$0.2330	$18,666.67
30,000	54.79	0.3230	$104.39	$0.2330	$22,400.00
35,000	63.93	0.3230	$104.39	$0.2330	$26,133.33
40,000	73.06	0.3230	$104.39	$0.2330	$29,866.67
45,000	82.19	0.3230	$104.39	$0.2330	$33,600.00
50,000	91.32	0.3230	$104.39	$0.2330	$37,333.33
60,000	109.59	0.3230	$104.39	$0.2330	$44,800.00
70,000	127.85	0.3230	$104.39	$0.2330	$52,266.67
80,000	146.12	0.3230	$104.39	$0.2330	$59,733.33
90,000	164.38	0.3230	$104.39	$0.2330	$67,200.00
100,000	182.65	0.3230	$104.39	$0.2330	$74,666.67
200,000	365.30	0.3230	$104.39	$0.2330	$149,333.33
300,000	547.95	0.3230	$104.39	$0.2330	$224,000.00
400,000	730.59	0.3230	$104.39	$0.2330	$298,666.67
500,000	913.24	0.3230	$104.39	$0.2330	$373,333.33
600,000	1,095.89	0.3230	$104.39	$0.2330	$448,000.00
700,000	1,278.54	0.3230	$104.39	$0.2330	$522,666.67
800,000	1,461.19	0.3230	$104.39	$0.2330	$597,333.33

PROPOSED RATES

Therms	Load Factor 75% Demand Amount	Energy Charge	Demand Charge	Proforma B FAC	Proposed Bill w/ Fuel	$ Diff. Current vs Proposed	% Diff. Current vs Proposed
1,000	1.83	$0.2426	$127.00	$0.4500	$924.56	$177.89	23.82%
2,000	3.65	0.2426	$127.00	$0.4500	$1,849.13	$355.80	23.83%
4,000	7.31	0.2426	$127.00	$0.4500	$3,698.25	$711.58	23.83%
6,000	10.96	0.2426	$127.00	$0.4500	$5,547.38	$1,067.38	23.83%
8,000	14.61	0.2426	$127.00	$0.4500	$7,396.51	$1,423.18	23.83%
10,000	18.26	0.2426	$127.00	$0.4500	$9,245.63	$1,778.96	23.83%
15,000	27.40	0.2426	$127.00	$0.4500	$13,868.45	$2,668.45	23.83%
20,000	36.53	0.2426	$127.00	$0.4500	$18,491.27	$3,557.94	23.83%
25,000	45.66	0.2426	$127.00	$0.4500	$23,114.09	$4,447.42	23.83%
30,000	54.79	0.2426	$127.00	$0.4500	$27,736.90	$5,336.90	23.83%
35,000	63.93	0.2426	$127.00	$0.4500	$32,359.72	$6,226.39	23.83%
40,000	73.06	0.2426	$127.00	$0.4500	$36,982.54	$7,115.87	23.83%
45,000	82.19	0.2426	$127.00	$0.4500	$41,605.36	$8,005.36	23.83%
50,000	91.32	0.2426	$127.00	$0.4500	$46,228.17	$8,894.84	23.83%
60,000	109.59	0.2426	$127.00	$0.4500	$55,473.81	$10,673.81	23.83%
70,000	127.85	0.2426	$127.00	$0.4500	$64,719.44	$12,452.77	23.83%
80,000	146.12	0.2426	$127.00	$0.4500	$73,965.08	$14,231.75	23.83%
90,000	164.38	0.2426	$127.00	$0.4500	$83,210.71	$16,010.71	23.83%
100,000	182.65	0.2426	$127.00	$0.4500	$92,456.35	$17,789.68	23.83%
200,000	365.30	0.2426	$127.00	$0.4500	$184,912.69	$35,579.36	23.83%
300,000	547.95	0.2426	$127.00	$0.4500	$277,369.04	$53,369.04	23.83%
400,000	730.59	0.2426	$127.00	$0.4500	$369,825.39	$71,158.72	23.83%
500,000	913.24	0.2426	$127.00	$0.4500	$462,281.74	$88,948.41	23.83%
600,000	1,095.89	0.2426	$127.00	$0.4500	$554,738.08	$106,738.08	23.83%
700,000	1,278.54	0.2426	$127.00	$0.4500	$647,194.43	$124,527.76	23.83%
800,000	1,461.19	0.2426	$127.00	$0.4500	$739,650.78	$142,317.45	23.83%

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE TWO
SCHEDULE OF ALLOCATION FACTORS

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-5S
SCHEDULE 1

NO.	ALLOCATORS	Rate 1	Rate 2	Rate 3	Total
Input Allocators					
	Annual Sales	3,267,198	33,768,403	11,600,320	48,635,921
2		6.7177%	69.4310%	23.8513%	100.0000%
	Number of Bills	2,025	859	48	2,932
3		69.0655%	29.2974%	1.6371%	100.0000%
	5 CP Demand Rates 1 and 2	33,192	253,963	0	287,155
5		11.5590%	88.4410%	0.0000%	100.0000%
	P/F A Normal Rev. w/o Misc. Rev.	$5,299,602	$35,009,189	$3,883,298	$44,192,090
6		11.9922%	79.2205%	8.7873%	100.0000%
	Direct to Rate 3A	0	0	1	1
11		0.0000%	0.0000%	100.0000%	100.0000%
	Annual Sales to Rates 1, 2 & 3B	3,267,198	33,768,403	2,960,374	39,995,975
13		8.1688%	84.4295%	7.4017%	100.0000%
	Production Plant	1,974,999	15,699,146	198,431	17,872,575
24		11.0504%	87.8393%	1.1103%	100.0000%
Internally-Generated Allocators					
	Gross Plant	$7,238,432	$41,139,042	$958,871	$49,336,345
100		14.6716%	83.3849%	1.9435%	100.0000%
	Net Plant	$6,386,706	$36,251,803	$843,483	$43,481,992
101		14.6882%	83.3720%	1.9398%	100.0000%

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE TWO
SCHEDULE OF ALLOCATION FACTORS

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-5S
SCHEDULE 1

NO.	ALLOCATORS	Rate 1	Rate 2	Rate 3	TOTAL
Internally-Generated Allocators (cont.)					
103	Distribution Mains	$1,024,786 10.8328%	$8,096,817 85.5895%	$338,453 3.5777%	$9,460,056 100.0000%
104	Subtotal Fuel (P/F A)	$1,058,431 7.4532%	$10,939,507 77.0332%	$2,203,087 15.5136%	$14,201,026 100.0000%
105	Subtotal Fuel (P/F B)	$1,072,424 7.4617%	$11,084,133 77.1214%	$2,215,766 15.4169%	$14,372,323 100.0000%
106	Production Plant	$1,974,999 11.0504%	$15,699,146 87.8393%	$198,431 1.1103%	$17,872,575 100.0000%
109	Distribution Plant	$1,024,980 10.8328%	$8,098,351 85.5895%	$338,517 3.5777%	$9,461,848 100.0000%
110	Subtotal Gross Plant	$4,282,937 14.6716%	$24,341,724 83.3849%	$567,358 1.9435%	$29,192,019 100.0000%
115	O&M Without Fuel Costs (P/F A)	$1,525,467 12.9527%	$10,056,410 85.3886%	$195,352 1.6587%	$11,777,229 100.0000%
117	O&M Without Fuel Costs (P/F B)	$2,848,081 12.7291%	$19,169,835 85.6767%	$356,707 1.5942%	$22,374,623 100.0000%

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE TWO
ALLOCATION OF RATE BASE

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-5S
SCHEDULE 2

		No.	Allocation Method	Total	Rate 1	Rate 2	Rate 3
	GROSS PLANT						
(1)	Total Steam Production Plant						
(2)	Demand	5	5 CP Demand Rates 1 and 2	$15,191,689	$1,756,002	$13,435,687	$0
(3)	Energy	13	Annual Sales to Rates 1, 2 & 3B	$2,680,886	$218,997	$2,263,459	$198,431
(4)	Total Distribution Plant						
(5)	Mains						
(6)	Energy	2	Annual Sales	$1,419,008	$95,324	$985,232	$338,453
(7)	Demand	5	5 CP Demand Rates 1 and 2	$8,041,047	$929,462	$7,111,585	$0
(8)	Land and Land Rights	103	Distribution Mains	$1,792	$194	$1,534	$64
(9)	Services	3	Number of Bills	$1,322,997	$913,734	$387,604	$21,659
(10)	Meters	3	Number of Bills	$534,599	$369,223	$156,624	$8,752
(11)	Total General and Intangible Plant	110	Subtotal Gross Plant	$20,144,326	$2,955,495	$16,797,318	$391,513
(12)	Total Gross Plant			$49,336,345	$7,238,432	$41,139,042	$958,871

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE TWO
ALLOCATION OF RATE BASE

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-5S
SCHEDULE 2

		No.	Allocation Method	Total	Rate 1	Rate 2	Rate 3
	DEPRECIATION RESERVE						
(1)	Total Steam Production Depr. Reserve	106	Production Plant	$1,975,186	$218,267	$1,734,990	$21,930
(2)	Total Distribution Plant Depreciation Reserve						
(3)	Mains	103	Distribution Mains	$1,142,466	$123,761	$977,832	$40,874
(4)	Land and Land Rights	103	Distribution Mains	$332	$36	$284	$12
(5)	Services	3	Number of Bills	$130,798	$90,336	$38,320	$2,141
(6)	Meters	3	Number of Bills	$68,110	$47,040	$19,954	$1,115
(7)	General and Intangible Plant Depreciation Reserve	110	Subtotal Gross Plant	$2,537,462	$372,286	$2,115,859	$49,317
(8)	Total Depreciation Reserve			$5,854,353	$851,726	$4,887,239	$115,388

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE TWO
ALLOCATION OF RATE BASE

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-5S
SCHEDULE 2
PAGE 3 OF 3

		No.	Allocation Method	Total	Rate 1	Rate 2	Rate 3
	OTHER RATE BASE COMPONENTS						
(1)	Materials and Supplies	100	Gross Plant	$4,191,781	$615,001	$3,495,311	$81,469
(2)	Customer Contracts	101	Net Plant	$31,667,651	$4,651,397	$26,401,952	$614,303
(3)	*Total Other Rate Base Components*			$35,859,432	$5,266,398	$29,897,262	$695,772
(4)	Total Rate Base			$79,341,424	$11,653,104	$66,149,065	$1,539,254

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE TWO
ALLOCATION OF DEPRECIATION AND AMORTIZATION EXPENSE

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-5S
SCHEDULE 3
PAGE 1 OF 1

		No.	Allocation Method	Total	Rate 1	Rate 2	Rate 3
	DEPRECIATION AND AMORTIZATION EXPENSES						
(1)	Total Steam Production Plant	106	Production Plant	$1,110,078	$122,669	$975,085	$12,325
(2)	Total Distribution						
(3)	Mains	103	Distribution Mains	$313,508	$33,962	$268,330	$11,216
(4)	Land and Land Rights	103	Distribution Mains	$49	$5	$42	$2
(5)	Services	3	Number of Bills	$79,344	$54,799	$23,246	$1,299
(6)	Meters	3	Number of Bills	$21,063	$14,547	$6,171	$345
(7)	General and Intangible Plant	110	Subtotal Gross Plant	$731,782	$107,364	$610,196	$14,222
(8)	Amortization of Leasehold Improvements	110	Subtotal Gross Plant	$187,152	$27,458	$156,056	$3,637
(9)	Total Depreciation and Amortization Expense			$2,442,977 0	$360,805	$2,039,126	$43,046

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE TWO
ALLOCATION OF OPERATION AND MAINTENANCE EXPENSE
PROFORMA A (PRESENT REVENUE LEVELS)

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-5S
SCHEDULE 4

		No.	Allocation Method	Total	Rate 1	Rate 2	Rate 3
	FUEL COSTS						
(1)	Cost of Boiler Fuel	13	Annual Sales to Rates 1, 2 & 3B	$8,017,805	$654,960	$6,769,393	$593,452
(2)	Cost of Purchases	13	Annual Sales to Rates 1, 2 & 3B	$4,939,167	$403,472	$4,170,115	$365,581
(3)	Cost of Purchased Steam-Summer	11	Direct to Rate 3A	$1,244,053	$0	$0	$1,244,053
(4)	Line Loss Fuel	104	Subtotal Fuel (P/F A)	$5,524,199	$411,730	$4,255,468	$857,001
(5)	Proforma Cost of Fuel (Excl. Spec. Contract Fuel)			$19,725,225	$1,470,161	$15,194,976	$3,060,088
(6)	Special Contract Fuel	6	P/F A Normal Rev. w/o Misc. Rev.	$11,467,495	$1,375,205	$9,084,605	$1,007,685
(7)	Total Fuel			$31,192,720	$2,845,366	$24,279,581	$4,067,773
	OPERATING EXPENSES						
(8)	Plant Operation & Maintenance Expense	24	Production Plant	$8,848,167	$977,762	$7,772,168	$98,237
(9)	Distribution Operation & Maintenance Expense	109	Distribution Plant	$2,533,396	$274,437	$2,168,322	$90,637
(10)	Customer Ops/Metering Expenses	3	Number of Bills	$395,666	$273,269	$115,920	$6,477
(11)	Administrative and General	115	O&M Without Fuel Costs (P/F A)	$7,967,139	$1,031,958	$6,803,027	$132,153
(12)	Total Proforma A Operating Costs			$19,744,367	$2,557,426	$16,859,437	$327,505

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE TWO
ALLOCATION OF OPERATION AND MAINTENANCE EXPENSE
PROFORMA B (PROPOSED REVENUE LEVELS)

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-5S
SCHEDULE 4
PAGE 2 OF 2

		NO.	Allocation Method	Total	Rate 1	Rate 2	Rate 3
	FUEL COSTS						
(1)	Cost of Boiler Fuel	13	Annual Sales to Rates 1, 2 & 3B	$8,017,805	$654,960	$6,769,393	$593,452
(2)	Cost of Purchases	13	Annual Sales to Rates 1, 2 & 3B	$5,110,464	$417,464	$4,314,740	$378,260
(3)	Cost of Purchased Steam-Summer	11	Direct to Rate 3A	$1,244,053	$0	$0	$1,244,053
(4)	Line Loss Fuel	105	Subtotal Fuel (P/F B)	$5,590,834	$417,173	$4,311,728	$861,933
(5)	Total Proforma Cost of Fuel			$19,963,156	$1,489,597	$15,395,860	$3,077,699
(6)	Special Contract Fuel	6	P/F A Normal Rev. w/o Misc. Rev.	$11,619,100	$1,393,385	$9,204,708	$1,021,007
(7)	Total Fuel			$31,582,257	$2,882,983	$24,600,568	$4,098,706
	OPERATING EXPENSES						
(8)	Plant Operation & Maintenance Expense	24	Production Plant	$11,478,423	$1,268,417	$10,082,566	$127,439
(9)	Distribution Operation & Maintenance Expense	109	Distribution Plant	$2,533,396	$274,437	$2,168,322	$90,637
(10)	Customer Ops/Metering Expenses	3	Number of Bills	$395,666	$273,269	$115,920	$6,477
(11)	Administrative and General	115	O&M Without Fuel Costs (P/F A)	$7,967,139	$1,031,958	$6,803,027	$132,153
(12)	Total Proforma B Operating Costs			$22,374,623	$2,848,081	$19,169,835	$356,707

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE TWO
ALLOCATION OF MISCELLANEOUS REVENUE CREDITS

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-5S
SCHEDULE 5
PAGE 1 OF 1

			Allocation Method	Total	Rate 1	Rate 2	Rate 3
	MISCELLANEOUS REVENUE CREDITS						
(1)	Special Contract-Margin	6	P/F A Normal Rev. w/o Misc. Rev.	$6,170,859	$740,022	$4,888,585	$542,253
(2)	Special Contract-Fuel	6	P/F A Normal Rev. w/o Misc. Rev.	$11,467,495	$1,375,205	$9,084,605	$1,007,685
(3)	Misc. Revenue Credits	6	P/F A Normal Rev. w/o Misc. Rev.	($33,054)	($3,964)	($26,186)	($2,905)
(4)	Total Miscellaneous Revenue Credits			$17,605,300	$2,111,262	$13,947,005	$1,547,033

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE TWO
CALCULATION OF TAXES, NET OPERATING INCOME AND REVENUES
PROFORMA A NORMALIZED TAXES

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-5S
SCHEDULE 6

	No.	ALLOCATION METHOD	Total	Rate 1	Rate 2	Rate 3
Proforma A Normalized Revenues. w/o Misc. Rev.			$44,192,090	$5,299,602	$35,009,189	$3,883,298
Proforma A Normalized Miscellaneous Revenues			17,605,300	2,111,262	13,947,005	1,547,033
Proforma A Normalized Rev. w/Misc. Revenues			$61,797,390	$7,410,865	$48,956,193	$5,430,332
Indiana Utility Receipts Taxes						
Total Proforma A Normalized Revenues w/ Misc. Rev.			$61,797,390	$7,410,865	$48,956,193	$5,430,332
Less: Uncollectible Expense	10	Uncollectibles Analysis	0	0	0	0
Less: Statutory Exemption	121	P/F A Normal Rev. w/ Misc. Rev.	0	0	0	0
Income for Utility Receipts Tax			$61,797,390	$7,410,865	$48,956,193	$5,430,332
Utility Receipts Tax Rate			1.40%	1.40%	1.40%	1.40%
Utility Receipts Tax			$865,163	$103,752	$685,387	$76,025
Net Operating Income						
Total Proforma A Normalized Margins			$61,797,390	$7,410,865	$48,956,193	$5,430,332
Less: Operation and Maintenance Expenses			(19,744,367)	(2,557,426)	(16,859,437)	(327,505)
Less: Fuel Costs			(31,192,720)	(2,845,366)	(24,279,581)	(4,067,773)
Less: Depreciation			(2,442,977)	(360,805)	(2,039,126)	(43,046)
Less: Other Taxes	115	O&M Without Fuel Costs (P/F A)	(608,595)	(78,829)	(519,671)	(10,095)
Less: Utility Receipts Tax			(865,163)	(103,752)	(685,387)	(76,025)
Less: Property Taxes	100	Gross Plant	(421,879)	(61,896)	(351,783)	(8,199)
Net Operating Income			$6,521,689	$1,402,791	$4,221,209	$897,689
Total Rate Base			$79,341,424	$11,653,104	$66,149,065	$1,539,254
Rate of Return			8.22%	12.04%	6.38%	58.32%

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE TWO
CALCULATION OF TAXES, NET OPERATING INCOME AND REVENUES
PROFORMA A EQUALIZED TAXES

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-5S
SCHEDULE 6

	NO.	ALLOCATION METHOD	TOTAL	Rate 1	Rate 2	Rate 3
Rate Base			$79,341,424	$11,653,104	$66,149,065	$1,539,254
Allowed Rate of Return			8.2198%	8.2198%	8.2198%	8.2198%
Allowed Net Operating Income			$6,521,688	$957,859	$5,437,305	$126,523
Utility Receipts Taxes						
Net Operating Income			6,521,688	957,859	5,437,305	126,523
Plus: Operating & Maintenance Expenses			$19,744,367	$2,557,426	$16,859,437	$327,505
Plus: Fuel Costs			$31,192,720	$2,845,366	$24,279,581	$4,067,773
Plus: Depreciation and Amortization Expenses			$2,442,977	$360,805	$2,039,126	$43,046
Plus: Property Taxes			421,879	61,896	351,783	8,199
Plus: Other Taxes			608,595	78,829	519,671	10,095
Less: Uncollectible Expense	10	Uncollectibles Analysis	0	0	0	0
Less: Statutory Exemption	121	P/F A Normal Rev. w/ Misc. Rev.	0	0	0	0
Total Amount to Calculate Utility Receipts Taxes			$60,932,225	$6,862,181	$49,486,903	$4,583,141
Utility Receipts Tax Factor (Tax Rate/(1-Tax Rate))			1.4199%	1.4199%	1.4199%	1.4199%
Utility Receipts Taxes			$865,163	$97,435	$702,654	$65,075
Derivation of Proforma A Equalized Revenues						
Net Operating Income			6,521,688	957,859	5,437,305	126,523
Plus: Operating & Maintenance Expenses			$19,744,367	$2,557,426	$16,859,437	$327,505
Plus: Fuel Costs			31,192,720	2,845,366	24,279,581	4,067,773
Plus: Depreciation and Amortization Expenses			$2,442,977	$360,805	$2,039,126	$43,046
Plus: Gross Income Taxes			865,163	97,435	702,654	65,075
Plus: Property Taxes			421,879	61,896	351,783	8,199
Plus: Other Taxes			608,595	78,829	519,671	10,095
Proforma A Equalized Revenues w/Misc. Rev.			$61,797,389	$6,959,616	$50,189,557	$4,648,216

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE TWO
CALCULATION OF TAXES, NET OPERATING INCOME AND REVENUES
PROFORMA B EQUALIZED TAXES

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-5S
SCHEDULE 6

	NO.	ALLOCATION METHOD	TOTAL	Rate 1	Rate 2	Rate 3
Rate Base			$79,341,424	$11,653,104	$66,149,065	$1,539,254
Allowed Rate of Return			8.2198%	8.2198%	8.2198%	8.2198%
Allowed Net Operating Income			$6,521,688	$957,859	$5,437,305	$126,523
Utility Receipts Tax						
Net Operating Income			6,521,688	957,859	5,437,305	126,523
Plus: Operating & Maintenance Expenses			$22,374,623	$2,848,081	$19,169,835	$356,707
Plus: Fuel Costs			$31,582,257	$2,882,983	$24,600,568	$4,098,706
Plus: Depreciation and Amortization Expenses			$2,442,977	$360,805	$2,039,126	$43,046
Plus: Property Taxes			421,879	61,896	351,783	8,199
Plus: Other Taxes	117	O&M Without Fuel Costs (P/F B)	608,595	78,829	519,671	10,095
Less: Uncollectible Expense	10	Uncollectibles Analysis	0	0	0	0
Less: Statutory Exemption	122	P/F A Equalized Rev. w/ Misc. Rev.	0	0	0	0
Total Amount to Calculate Utility Receipts Tax			$63,952,018	$7,190,453	$52,118,288	$4,643,277
Utility Receipts Tax Factor (Tax Rate/(1-Tax Rate))			1.4199%	1.4199%	1.4199%	1.4199%
Utility Receipts Taxes			$908,041	$102,096	$740,016	$65,929
DERIVATION OF PROFORMA B EQUALIZED REVENUES						
Net Operating Income			6,521,688	957,859	5,437,305	126,523
Plus: Operating & Maintenance Expenses			$22,374,623	$2,848,081	$19,169,835	$356,707
Plus: Fuel Costs			31,582,257	2,882,983	24,600,568	4,098,706
Plus: Depreciation and Amortization Expenses			$2,442,977	$360,805	$2,039,126	$43,046
Plus: Utility Receipts Taxes			908,041	102,096	740,016	65,929
Plus: Property Taxes			421,879	61,896	351,783	8,199
Plus Other Taxes			608,595	78,829	519,671	10,095
Proforma B Equalized Revenues w/Misc. Rev.			$64,860,059	$7,292,549	$52,858,305	$4,709,206

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE TWO
CALCULATION OF TAXES, NET OPERATING INCOME AND REVENUES
PROFORMA B NORMALIZED TAXES

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-5S
SCHEDULE 6
PAGE 4 OF 5

	NO.	ALLOCATION METHOD	TOTAL	Rate 1	Rate 2	Rate 3
SUBSIDY REDUCTION						
Proforma A Normalized Revenues w/Misc. Rev.			$61,797,390	$7,410,865	$48,956,193	$5,430,332
Less: Proforma A Equalized Revenues w/Misc. Rev.			61,797,389	6,959,616	50,189,557	4,648,216
Proforma A Subsidy			$1	$451,249	($1,233,363)	$782,115
Proposed Subsidy Reduction Percentage				10.00%	6.10%	3.84%
Proforma B Subsidy			$1	$406,124	($1,158,182)	$752,059
Proforma B Equalized Revenues w/Misc. Rev.			$64,860,059	$7,292,549	$52,858,305	$4,709,206
Proforma B Normalized Revenues w/Misc. Rev.			$64,860,060	$7,698,673	$51,700,122	$5,461,264
TAX CALCULATIONS						
Utility Receipts Taxes						
Total Proforma B Normal Revenues			$64,860,060	$7,698,673	$51,700,122	$5,461,264
Less: Uncollectible Expense	10	Uncollectibles Analysis	0	0	0	0
Less: Statutory Exemption			0	0	0	0
Income for Utility Receipts Taxes			$64,860,060	$7,698,673	$51,700,122	$5,461,264
Utility Receipts Tax Rate			1.40%	1.40%	1.40%	1.40%
Utility Receipts Taxes			$908,041	$107,781	$723,802	$76,458
Net Operating Income						
Total Proforma B Normal Revenues w/Misc. Rev.			$64,860,060	$7,698,673	$51,700,122	$5,461,264
Less: Operation and Maintenance Expenses			(22,374,623)	(2,848,081)	(19,169,835)	(356,707)
Less: Fuel Costs			(31,582,257)	(2,882,983)	(24,600,568)	(4,098,706)
Less: Depreciation Expense			(2,442,977)	(360,805)	(2,039,126)	(43,046)
Less: Other Taxes			(608,595)	(78,829)	(519,671)	(10,095)
Less: Utility Receipts Taxes			(908,041)	(107,781)	(723,802)	(76,458)
Less: Property Taxes			(421,879)	(61,896)	(351,783)	(8,199)
Net Operating Income			$6,521,689	$1,358,297	$4,295,338	$868,053
Total Rate Base			$79,341,424	$11,653,104	$66,149,065	$1,539,254
Rate of Return			8.22%	11.66%	6.49%	56.39%

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE TWO
SUMMARY OF PROFORMA REVENUES

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-5S
SCHEDULE 6

Proforma A Normalized Revenues	NO.	ALLOCATION METHOD	TOTAL	Rate 1	Rate 2	Rate 3
Proforma A Normalized Revenues w/o Misc. Rev.			$44,192,090	$5,299,602	$35,009,189	$3,883,298
Proforma A Normalized Miscellaneous Revenues			17,605,300	2,111,262	13,947,005	1,547,033
Total Proforma A Normalized Revenues w/Misc. Rev.			$61,797,390	$7,410,865	$48,956,193	$5,430,332
Proforma A Equalized Revenues						
Proforma A Equalized Revenues w/o Misc. Rev.			$44,192,089	$4,848,353	$36,242,552	$3,101,183
Proforma A Equalized Miscellaneous Revenues			17,605,300	2,111,262	13,947,005	1,547,033
Total Proforma A Equalized Revenues w/Misc. Rev.			$61,797,389	$6,959,616	$50,189,557	$4,648,216
Proforma B Equalized Revenues						
Proforma B Equalized Revenues w/o Misc. Rev.			$47,103,153	$5,163,106	$38,791,197	$3,148,850
Proforma B Equalized Miscellaneous Revenues			17,756,906	2,129,443	14,067,107	1,560,355
Total Proforma B Equalized Revenues w/Misc. Rev.			$64,860,059	$7,292,549	$52,858,305	$4,709,206
Proforma B Normalized Revenues						
Proforma B Normalized Revenues w/o Misc. Rev.			$47,103,154	$5,569,230	$37,633,015	$3,900,909
Proforma B Normalized Miscellaneous Revenues			17,756,906	2,129,443	14,067,107	1,560,355
Total Proforma B Normalized Revenues w/Misc. Rev.			$64,860,060	$7,698,673	$51,700,122	$5,461,264

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE TWO
NORMALIZED COST OF SERVICE AT PRESENT RATES

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-5S
SCHEDULE 7

	TOTAL	Rate 1	Rate 2	Rate 3
OPERATING REVENUES:				
Revenue from Fuel Sales	$44,192,090	$5,299,602	$35,009,189	$3,883,298
Miscellaneous Revenues	17,605,300	2,111,262	13,947,005	1,547,033
Total Operating Revenues	$61,797,390	$7,410,865	$48,956,193	$5,430,332
OPERATING EXPENSES				
FAC Fuel	$14,201,026	$1,058,431	$10,939,507	$2,203,087
Line Loss Fuel	$5,524,199	$411,730	$4,255,468	$857,001
Special Contract Fuel	$11,467,495	$1,375,205	$9,084,605	$1,007,685
Plant Operation & Maintenance Expense	$8,848,167	$977,762	$7,772,168	$98,237
Distribution Operation & Maintenance Expense	$2,533,396	$274,437	$2,168,322	$90,637
Customer Ops/Metering Expenses	$395,666	$273,269	$115,920	$6,477
Administrative and General	$7,967,139	$1,031,958	$6,803,027	$132,153
Total Depreciation and Amortization Expense	$2,442,977	360,805	2,039,126	43,046
Other Taxes	$608,595	$78,829	$519,671	$10,095
Property Taxes	$421,879	$61,896	$351,783	$8,199
Utility Receipts Taxes	$865,163	$103,752	$685,387	$76,025
Total Operating Expenses	$55,275,701	$6,008,074	$44,734,984	$4,532,643
Net Operating Income	$6,521,689	$1,402,791	$4,221,209	$897,689
Total Rate Base	$79,341,424	$11,653,104	$66,149,065	$1,539,254
Rate of Return	8.22%	12.04%	6.38%	58.32%

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE TWO
EQUALIZED COST OF SERVICE AT PRESENT RATES

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-5S
SCHEDULE 7

	TOTAL	Rate 1	Rate 2	Rate 3
OPERATING REVENUES:				
Revenue from Fuel Sales	$44,192,089	$4,848,353	$36,242,552	$3,101,183
Miscellaneous Revenues	17,605,300	2,111,262	13,947,005	1,547,033
Total Operating Revenues	$61,797,389	$6,959,616	$50,189,557	$4,648,216
OPERATING EXPENSES				
FAC Fuel	$14,201,026	$1,058,431	$10,939,507	$2,203,087
Line Loss Fuel	$5,524,199	$411,730	$4,255,468	$857,001
Special Contract Fuel	$11,467,495	$1,375,205	$9,084,605	$1,007,685
Plant Operation & Maintenance Expense	$8,848,167	$977,762	$7,772,168	$98,237
Distribution Operation & Maintenance Expense	$2,533,396	$274,437	$2,168,322	$90,637
Customer Ops/Metering Expenses	$395,666	$273,269	$115,920	$6,477
Administrative and General	$7,967,139	$1,031,958	$6,803,027	$132,153
Total Depreciation and Amortization Expense	$2,442,977	360,805	2,039,126	43,046
Other Taxes	608,595	78,829	519,671	10,095
Property Taxes	421,879	61,896	351,783	8,199
Utility Receipts Taxes	865,163	97,435	702,654	65,075
Total Operating Expenses	$55,275,701	$6,001,757	$44,752,251	$4,521,693
Net Operating Income	$6,521,688	$957,859	$5,437,305	$126,523
Total Rate Base	$79,341,424	$11,653,104	$66,149,065	$1,539,254
Rate of Return	8.22%	8.22%	8.22%	8.22%

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE TWO
EQUALIZED COST OF SERVICE AT PROPOSED RATES

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-5S
SCHEDULE 7

	TOTAL	Rate 1	Rate 2	Rate 3
OPERATING REVENUES:				
Revenue from Fuel Sales	$47,103,153	$5,163,106	$38,791,197	$3,148,850
Miscellaneous Revenues	17,756,906	2,129,443	14,067,107	1,560,355
Total Operating Revenues	$64,860,059	$7,292,549	$52,858,305	$4,709,206
OPERATING EXPENSES				
FAC Fuel	$14,372,323	$1,072,424	$11,084,133	$2,215,766
Line Loss Fuel	$5,590,834	$417,173	$4,311,728	$861,933
Special Contract Fuel	$11,619,100	$1,393,385	$9,204,708	$1,021,007
Plant Operation & Maintenance Expense	$11,478,423	$1,268,417	$10,082,566	$127,439
Distribution Operation & Maintenance Expense	$2,533,396	$274,437	$2,168,322	$90,637
Customer Ops/Metering Expenses	$395,666	$273,269	$115,920	$6,477
Administrative and General	$7,967,139	$1,031,958	$6,803,027	$132,153
Total Depreciation and Amortization Expense	$2,442,977	$360,805	$2,039,126	$43,046
Other Taxes	608,595	78,829	519,671	10,095
Property Taxes	421,879	61,896	351,783	8,199
Utility Receipts Taxes	908,041	102,096	740,016	65,929
Total Operating Expenses	$58,338,371	$6,334,690	$47,420,999	$4,582,682
Net Operating Income	$6,521,688	$957,859	$5,437,305	$126,523
Total Rate Base	$79,341,424	$11,653,104	$66,149,065	$1,539,254
Rate of Return	8.22%	8.22%	8.22%	8.22%

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE TWO
NORMALIZED COST OF SERVICE AT PROPOSED RATES

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-5S
SCHEDULE 7
PAGE 4 OF 4

	TOTAL	Rate 1	Rate 2	Rate 3
OPERATING REVENUES:				
Revenue from Fuel Sales	$47,103,154	$5,569,230	$37,633,015	$3,900,909
Miscellaneous Revenues	17,756,906	2,129,443	14,067,107	1,560,355
Total Operating Revenues	$64,860,060	$7,698,673	$51,700,122	$5,461,264
OPERATING EXPENSES				
FAC Fuel	$14,372,323	$1,072,424	$11,084,133	$2,215,766
Line Loss Fuel	$5,590,834	$417,173	$4,311,728	$861,933
Special Contract Fuel	$11,619,100	$1,393,385	$9,204,708	$1,021,007
Plant Operation & Maintenance Expense	$11,478,423	$1,268,417	$10,082,566	$127,439
Distribution Operation & Maintenance Expense	$2,533,396	$274,437	$2,168,322	$90,637
Customer Ops/Metering Expenses	$395,666	$273,269	$115,920	$6,477
Administrative and General	$7,967,139	$1,031,958	$6,803,027	$132,153
Total Depreciation and Amortization Expense	2,442,977	360,805	2,039,126	43,046
Other Taxes	608,595	78,829	519,671	10,095
Property Taxes	421,879	61,896	351,783	8,199
Utility Receipts Taxes	908,041	107,781	723,802	76,458
Total Operating Expenses	$58,338,371	$6,340,375	$47,404,785	$4,593,211
Net Operating Income	$6,521,689	$1,358,297	$4,295,338	$868,053
Total Rate Base	$79,341,424	$11,653,104	$66,149,065	$1,539,254
Rate of Return	8.22%	11.66%	6.49%	56.39%

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE TWO
STATEMENT OF OPERATING INCOME BASED UPON PROFORMA A REVENUES
AT PRESENT RATES OF RETURN

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006 **PETITIONER'S EXHIBIT NO. KAH-5S**
TYPE OF FILING: SUPPLEMENTAL DIRECT **SCHEDULE 8**
WITNESS: HEID

Line No.	Description (Column A)	Total (B)	Rate 1 (C)	Rate 2 (D)	Rate 3 (D)
	Operating Revenues				
(1)	Revenues From Steam Sales	$44,192,090	$5,299,602	$35,009,189	$3,883,298
(2)	Miscellaneous Revenues	$17,605,300	$2,111,262	$13,947,005	$1,547,033
(3)	Total	$61,797,390	$7,410,865	$48,956,193	$5,430,332
	Operating Expenses				
(4)	Fuel	$31,192,720	$2,845,366	$24,279,581	$4,067,773
(5)	Operation and Maintenance	19,744,367	2,557,426	16,859,437	327,505
(6)	Depreciation and Amortization	2,442,977	360,805	2,039,126	43,046
(7)	Taxes Other Than Income Taxes	1,895,637	244,478	1,556,841	94,319
(8)	Total	$55,275,701	$6,008,074	$44,734,984	$4,532,643
(9)	Net Operating Income	$6,521,689	$1,402,791	$4,221,209	$897,689
(10)	Original Cost Rate Base	$79,341,424	$11,653,104	$66,149,065	$1,539,254
(11)	Rate of Return on Rate Base	8.22%	12.04%	6.38%	58.32%
(12)	Earnings Index	100%	146%	78%	709%

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE TWO
STATEMENT OF OPERATING INCOME BASED UPON PROFORMA A REVENUES
AT EQUALIZED RATES OF RETURN

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-5S
SCHEDULE 9

Line No.	Description (Column A)	Total (B)	Rate 1 (C)	Rate 2 (D)	Rate 3 (D)
	Operating Revenues				
(1)	Revenues From Steam Sales	$44,192,089	$4,848,353	$36,242,552	$3,101,183
(2)	Miscellaneous Revenues	$17,605,300	$2,111,262	$13,947,005	$1,547,033
(3)	Total	$61,797,389	$6,959,616	$50,189,557	$4,648,216
	Operating Expenses				
(4)	Fuel	$31,192,720	$2,845,366	$24,279,581	$4,067,773
(5)	Operation and Maintenance	19,744,367	$2,557,426	$16,859,437	$327,505
(6)	Depreciation and Amortization	2,442,977	360,805	2,039,126	43,046
(7)	Taxes Other Than Income Taxes	1,895,637	238,160	1,574,108	83,369
(8)	Total	$55,275,701	$6,001,757	$44,752,251	$4,521,693
(9)	Net Operating Income	$6,521,688	$957,859	$5,437,305	$126,523
(10)	Original Cost Rate Base	$79,341,424	$11,653,104	$66,149,065	$1,539,254
(11)	Rate of Return on Rate Base	8.22%	8.22%	8.22%	8.22%
(12)	Earnings Index	100%	100%	100%	100%

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE TWO
STATEMENT OF OPERATING INCOME BASED UPON PROFORMA B REVENUES
AT EQUALIZED RATES OF RETURN

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-5S
SCHEDULE 10

Line No.	Description (Column A)	Total (B)	Rate 1 (C)	Rate 2 (D)	Rate 3 (D)
	Operating Revenues				
(1)	Revenues From Steam Sales	$47,103,153	$5,163,106	$38,791,197	$3,148,850
(2)	Miscellaneous Revenues	$17,756,906	$2,129,443	$14,067,107	$1,560,355
(3)	Total	$64,860,059	$7,292,549	$52,858,305	$4,709,206
	Operating Expenses				
(4)	Fuel	$31,582,257	$2,882,983	$24,600,568	$4,098,706
(5)	Operation and Maintenance	22,374,623	2,848,081	19,169,835	356,707
(6)	Depreciation and Amortization	2,442,977	360,805	2,039,126	43,046
(7)	Taxes Other Than Income Taxes	1,938,515	242,821	1,611,470	84,223
(8)	Total	$58,338,371	$6,334,690	$47,420,999	$4,582,682
(9)	Net Operating Income	$6,521,688	$957,859	$5,437,305	$126,523
(10)	Original Cost Rate Base	$79,341,424	$11,653,104	$66,149,065	$1,539,254
(11)	Rate of Return on Rate Base	8.22%	8.22%	8.22%	8.22%
(12)	Earnings Index	100%	100%	100%	100%

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE TWO
STATEMENT OF OPERATING INCOME BASED UPON PROFORMA B REVENUES
AT PROPOSED RATES OF RETURN

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-5S
SCHEDULE 11

Line No.	Description (Column A)	Total (B)	Rate 1 (C)	Rate 2 (D)	Rate 3 (D)
	Operating Revenues				
(1)	Revenues From Steam Sales	$47,103,154	$5,569,230	$37,633,015	$3,900,909
(2)	Miscellaneous Revenues	$17,756,906	$2,129,443	$14,067,107	$1,560,355
(3)	Total	$64,860,060	$7,698,673	$51,700,122	$5,461,264
	Operating Expenses				
(4)	Fuel	$31,582,257	$2,882,983	$24,600,568	$4,098,706
(5)	Operation and Maintenance	22,374,623	2,848,081	19,169,835	356,707
(6)	Depreciation and Amortization	2,442,977	360,805	2,039,126	43,046
(7)	Taxes Other Than Income Taxes	1,938,515	248,507	1,595,256	94,752
(8)	Total	$58,338,371	$6,340,375	$47,404,785	$4,593,211
(9)	Net Operating Income	$6,521,689	$1,358,297	$4,295,338	$868,053
(10)	Original Cost Rate Base	$79,341,424	$11,653,104	$66,149,065	$1,539,254
(11)	Rate of Return on Rate Base	8.22%	11.66%	6.49%	56.39%
(12)	Earnings Index	100%	142%	79%	686%

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE TWO
COMPARISON OF PROFORMA OPERATING REVENUES AND RESULTING DOLLAR SUBSIDY LEVELS AT PRESENT AND PROPOSED RATES

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-5S
SCHEDULE 12

		PROFORMA REVENUES - PRESENT RATES			PROFORMA REVENUES - PROPOSED RATES				
								Subsidy Reduction	
Line No.	Rate Schedule	Revenues At Present Rates	Revenues Required For Equalized Returns	Present Subsidy	Revenues Required For Equalized Returns	Revenues At Proposed Rates	Proposed Subsidy	Amount	Percentage
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
(1)	Rate 1	$7,410,865	$6,959,616	$451,249	$7,292,549	$7,698,673	$406,124	$45,125	10.00%
(2)	Rate 2	$48,956,193	$50,189,557	($1,233,363)	$52,858,305	$51,700,122	($1,158,182)	($75,181)	6.10%
(3)	Rate 3	$5,430,332	$4,648,216	$782,115	$4,709,206	$5,461,264	$752,059	$30,056	3.84%
(4)	Total	$61,797,390	$61,797,389	$1	$64,860,059	$64,860,060	$1	$0	

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE TWO
COMPARISON OF STEAM SALES REVENUES AT PRESENT AND PROPOSED RATES

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-5S
SCHEDULE 13

		STEAM SALES REVENUES			
Line No.	Rate Schedule (A)	Revenues At Present Rates (B)	Revenues At Proposed Rates (C)	Increase or (Decrease) Amount (D)	Increase or (Decrease) Percentage (E)
(1)	Rate 1	$5,299,602	$5,569,230	$269,627	5.09%
(2)	Rate 2	$35,009,189	$37,633,015	$2,623,826	7.49%
(3)	Rate 3	$3,883,298	$3,900,909	$17,611	0.45%
(4)	Total	$44,192,090	$47,103,154	$2,911,065	6.59%

CITIZENS THERMAL ENERGY
IURC CAUSE NO. 43201
COST OF SERVICE STUDY - PHASE TWO
COMPARISON OF REVENUES AT PRESENT AND PROPOSED RATES

DATA: 12 MONTHS ENDED SEPTEMBER 30, 2006
TYPE OF FILING: SUPPLEMENTAL DIRECT
WITNESS: HEID

PETITIONER'S EXHIBIT NO. KAH-5S
SCHEDULE 14

DESCRIPTION	Number of Bills	Billing Quantities (therms)	Present Rates ($/therm)	Proforma A FAC ($/therm)	Effective Present Rates ($/therm)	Revenue at Present Rates	Proposed Margin Rates ($/therm)	Proforma B FAC ($/therm)	Proposed Effective Rates ($/therm)	Revenue at Proposed Rates	Increase in Revenues Amount	Increase in Revenues Percent
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
RATE 1 - GENERAL STEAM SERVICE												
1-1000 Sq. Ft. EDR	180		$38.00		$38.00	$6,840	$40.00		$40.00	$7,200	$360	5.26%
1001-10,000 Sq. Ft. EDR	1,304		$95.00		$95.00	$123,880	$100.00		$100.00	$130,400	$6,520	5.26%
10,001-20,000 Sq. Ft. EDR	445		$190.00		$190.00	$84,550	$200.00		$200.00	$89,000	$4,450	5.26%
Over 20,000 Sq. Ft. EDR	96		$380.00		$380.00	$36,480	$400.00		$400.00	$38,400	$1,920	5.26%
Block 1		1,042,651	$1.2645	$0.4500	$1.7145	$1,787,600	$1.3471	$0.4559	$1.8030	$1,879,926	$92,326	5.16%
Block 2		1,597,139	$1.0517	$0.4500	$1.5017	$2,398,385	$1.1214	$0.4559	$1.5773	$2,519,207	$120,822	5.04%
Block 3		627,408	$0.9239	$0.4500	$1.3739	$861,981	$0.9869	$0.4559	$1.4428	$905,240	$43,259	5.02%
Total Therms and Revenues	2,025	3,267,198				$5,299,716				$5,569,373	$269,657	5.09%
						0.999978				0.999978		
						$5,299,602				$5,569,253		
RATE 2 - DEMAND RATE SERVICE												
Service Charge	859		$0.00		$0.00	$0	$0.00		$0.00	$0	$0	N/A
Demand Charge	91,518		$127.00		$127.00	$11,622,752	$137.00		$137.00	$12,537,929	$915,177	7.87%
Energy Charge		33,768,403	$0.2426	$0.4500	$0.6926	$23,387,191	$0.2873	$0.4559	$0.7432	$25,097,521	$1,710,330	7.31%
Total Therms and Revenues	92,377	33,768,403				$35,009,943				$37,635,450	$2,625,507	7.50%
						0.999978				0.999978		
						$35,009,190				$37,634,640		
RATE 3 - ADDITIONAL SUMMER SERVICE												
Service Charge-Provision A (Covanta)	12		$ -		$0.00	$0			$0.00	$0	$0	N/A
Service Charge-Provision B (CTE)	36		$ -		$0.0000	$0			$0.0000	$0	$0	N/A
Energy Charge (Covanta)-Provision A		8,639,946	$ 0.0668	$0.2000	$0.2668	$2,305,484	$0.0668	$0.2000	$0.2668	$2,305,484	$0	0.00%
Energy Charge (CTE)-Provision B		2,960,374	$ 0.0830	$0.4500	$0.5330	$1,577,898	$0.0830	$0.4559	$0.5390	$1,595,508	$17,610	1.12%
Total Therms and Revenues	48	11,600,320				$3,883,382				$3,900,992	$17,610	0.45%
						0.999978				0.999978		
						$3,883,298				$3,900,908		
TOTAL THERMS AND REVENUE	94,450	48,635,921				$44,192,090				$47,104,801	$2,912,774	6.59%
MISCELLANEOUS REVENUES						17,605,300				17,756,906		
TOTAL REVENUES						$61,797,390				$64,861,707	$3,064,317	4.96%

Citizens Gas & Coke Utility
2020 North Meridian Street
Indianapolis, Indiana 46202

Substitute Second Revised Page No. 101
Superseding First Revised Page No. 101

RATE 1
GENERAL STEAM SERVICE

AVAILABILITY:
Available for space heating and other general service to customers located adjacent to the Utility's existing steam distribution mains. Not available for customers having an EDR (Equivalent Direct Radiation) of more than 30,000 square feet.

This service will be supplied on a year-round basis.

RATE:
The sum of the Customer Charge and the Energy Charge.

Customer Charge	
0-1000 Sq. Ft. EDR	$40.00/Month
1001-10000	100.00
10001-20000	200.00
20001-30000	400.00

Energy Charge	
Any part of the first 1000 Therms	$1.3471 per Therm
Any part of the next 4000 Therms	1.1214 per Therm
Over 5000 Therms	0.9869 per Therm

MINIMUM BILL PER MONTH:
The minimum bill will be the customer charge. Seasonal customers will receive bills during all months of the year even when no energy charge is due.

CONTRACT RIDERS APPLICABLE:
No. 1 - See Page 201.

PAYMENT:
The above rates and charges are net. If the net bill is not paid within seventeen days after its date of issue, a collection charge will be added in the amount of ten percent of the first three dollars, plus three percent of the excess of three dollars.

Citizens Gas & Coke Utility
2020 North Meridian Street
Indianapolis, Indiana 46202

Substitute Second Revised Page No. 101-B
Superseding First Revised Page No. 101-B

CONTRACT TERM:

Contracts, except special contracts, shall be for an initial term of three years and shall continue in effect thereafter for successive terms of one year each unless written notice of intention to terminate is given by either party to the other at lease sixty days before the end of any term. Special contracts shall be for such term as may be agreed upon by the parties, subject to approval of the Indiana Utility Regulatory Commission.

Citizens Gas & Coke Utility
2020 North Meridian Street
Indianapolis, Indiana 46202

Substitute Second Revised Page No. 102
Superseding First Revised Page No. 102

RATE 2
DEMAND RATE SERVICE

AVAILABILITY:
Available to all steam customers located adjacent to the steam mains of the Utility, providing they contract for a minimum Billing Demand of 50 Therms per hour in the Month of maximum usage during the year, and providing billing will be continuous throughout all twelve Months of the year.

RATE:
The sum of the Demand Charge and the Energy Charge.

Demand Charge

$137.00 per Therm per Hour

Energy Charge

$ 0.2873 per Therm

BILLING DEMAND:
The Billing Demand shall be the maximum average Demand for a thirty-minute period, measured in Therms per hour, during the Month for which the bill is rendered, but in no case shall the Billing Demand be less than seventy-five per cent of the maximum thirty-minute Demand during the preceding eleven Months.

Where the character of the load is such that the steam demands fluctuate violently between maximum and minimum so that determination of an average thirty (30) minute Demand is impractical, then the Billing Demand will be based upon the average of the three highest peaks during the thirty (30) minute period.

MINIMUM MONTHLY BILL:
The minimum Monthly charge shall be the demand charge and, in no case, less than $5,137.50 per Month.

CONTRACT RIDERS APPLICABLE:
No. 1 - See Page 201.

Citizens Gas & Coke Utility
2020 North Meridian Street
Indianapolis, Indiana 46202

Substitute Second Revised Page No. 102-B
Superseding First Revised Page No. 102-B

PAYMENT:
The above rates and charges are net. If the net bill is not paid within seventeen days after its date of issue, a collection charge will be added in the amount of ten percent of the first three dollars plus three percent of the excess of three dollars.

CONTRACT TERM:
Contracts shall be for an initial term of not less than three years and shall continue in effect thereafter for successive like terms. The Utility may require a special contract when unusual construction or equipment expense is necessary to furnish the service subject to approval of the Indiana Utility Regulatory Commission.

CITIZENS THERMAL ENERGY

Dollar Impact of Cause No. 43201 on Typical Rate No. 1 General Steam Service Customer (Phase 2 - w/o Mfg)
Phase 2 Rates In Comparison to Proposed Phase 1 Rates

PHASE 1 RATES

Therms	Facilities Charge	First 1000	Next 4000	Over 5000	Proforma A FAC Phase 1	Current Bill w/ Fuel
50	$190.00	$1.2645	$1.0517	$0.9239	$0.45000	275.73
100	190.00	1.2645	1.0517	0.9239	$0.45000	361.45
200	190.00	1.2645	1.0517	0.9239	$0.45000	532.90
300	190.00	1.2645	1.0517	0.9239	$0.45000	704.35
400	190.00	1.2645	1.0517	0.9239	$0.45000	875.80
500	190.00	1.2645	1.0517	0.9239	$0.45000	1,047.25
600	190.00	1.2645	1.0517	0.9239	$0.45000	1,218.70
700	190.00	1.2645	1.0517	0.9239	$0.45000	1,390.15
800	190.00	1.2645	1.0517	0.9239	$0.45000	1,561.60
900	190.00	1.2645	1.0517	0.9239	$0.45000	1,733.05
1,000	190.00	1.2645	1.0517	0.9239	$0.45000	1,904.50
2,000	190.00	1.2645	1.0517	0.9239	$0.45000	3,406.20
4,000	190.00	1.2645	1.0517	0.9239	$0.45000	6,409.60
6,000	190.00	1.2645	1.0517	0.9239	$0.45000	9,285.20
8,000	190.00	1.2645	1.0517	0.9239	$0.45000	12,033.00
10,000	190.00	1.2645	1.0517	0.9239	$0.45000	14,780.80
12,000	190.00	1.2645	1.0517	0.9239	$0.45000	17,528.60
14,000	190.00	1.2645	1.0517	0.9239	$0.45000	20,276.40
16,000	190.00	1.2645	1.0517	0.9239	$0.45000	23,024.20
18,000	190.00	1.2645	1.0517	0.9239	$0.45000	25,772.00
20,000	190.00	1.2645	1.0517	0.9239	$0.45000	28,519.80

PHASE 2 RATES

Therms	Facilities Charge	First 1000	Next 4000	Over 5000	Proforma B FAC Phase 2	Proposed Bill w/ Fuel	$ Diff. Current vs Proposed	% Diff. Current vs Proposed
50	$200.00	$1.3471	$1.1214	$0.9869	$0.45590	290.15	14.42	5.23%
100	200.00	1.3471	1.1214	0.9869	$0.45590	380.30	18.85	5.22%
200	200.00	1.3471	1.1214	0.9869	$0.45590	560.60	27.70	5.20%
300	200.00	1.3471	1.1214	0.9869	$0.45590	740.90	36.55	5.19%
400	200.00	1.3471	1.1214	0.9869	$0.45590	921.20	45.40	5.18%
500	200.00	1.3471	1.1214	0.9869	$0.45590	1,101.50	54.25	5.18%
600	200.00	1.3471	1.1214	0.9869	$0.45590	1,281.80	63.10	5.18%
700	200.00	1.3471	1.1214	0.9869	$0.45590	1,462.10	71.95	5.18%
800	200.00	1.3471	1.1214	0.9869	$0.45590	1,642.40	80.80	5.17%
900	200.00	1.3471	1.1214	0.9869	$0.45590	1,822.70	89.65	5.17%
1,000	200.00	1.3471	1.1214	0.9869	$0.45590	2,003.00	98.50	5.17%
2,000	200.00	1.3471	1.1214	0.9869	$0.45590	3,580.30	174.10	5.11%
4,000	200.00	1.3471	1.1214	0.9869	$0.45590	6,734.90	325.30	5.08%
6,000	200.00	1.3471	1.1214	0.9869	$0.45590	9,755.00	469.80	5.06%
8,000	200.00	1.3471	1.1214	0.9869	$0.45590	12,640.60	607.60	5.05%
10,000	200.00	1.3471	1.1214	0.9869	$0.45590	15,526.20	745.40	5.04%
12,000	200.00	1.3471	1.1214	0.9869	$0.45590	18,411.80	883.20	5.04%
14,000	200.00	1.3471	1.1214	0.9869	$0.45590	21,297.40	1,021.00	5.04%
16,000	200.00	1.3471	1.1214	0.9869	$0.45590	24,183.00	1,158.80	5.03%
18,000	200.00	1.3471	1.1214	0.9869	$0.45590	27,068.60	1,296.60	5.03%
20,000	200.00	1.3471	1.1214	0.9869	$0.45590	29,954.20	1,434.40	5.03%

CITIZENS GAS & COKE UTILITY

Dollar Impact of Cause No. 43201 on Typical Rate No. 2 Demand Rate Steam Service (Phase 2 - w/o Mfg)
Phase 2 Rates In Comparison to Proposed Phase 1 Rates

PHASE 1 RATES

Therms	Load Factor 25% Demand Amount	Energy Charge	Demand Charge	Proforma A FAC Phase 2	Current Bill w/ Fuel
1,000	5.48	$0.2426	$127.00	0.4500	$1,388.49
2,000	10.96	0.2426	$127.00	0.4500	$2,776.98
4,000	21.92	0.2426	$127.00	0.4500	$5,553.96
6,000	32.88	0.2426	$127.00	0.4500	$8,330.94
8,000	43.84	0.2426	$127.00	0.4500	$11,107.92
10,000	54.79	0.2426	$127.00	0.4500	$13,884.90
15,000	82.19	0.2426	$127.00	0.4500	$20,827.36
20,000	109.59	0.2426	$127.00	0.4500	$27,769.81
25,000	136.99	0.2426	$127.00	0.4500	$34,712.26
30,000	164.38	0.2426	$127.00	0.4500	$41,654.71
35,000	191.78	0.2426	$127.00	0.4500	$48,597.16
40,000	219.18	0.2426	$127.00	0.4500	$55,539.62
45,000	246.58	0.2426	$127.00	0.4500	$62,482.07
50,000	273.97	0.2426	$127.00	0.4500	$69,424.52
60,000	328.77	0.2426	$127.00	0.4500	$83,309.42
70,000	383.56	0.2426	$127.00	0.4500	$97,194.33
80,000	438.36	0.2426	$127.00	0.4500	$111,079.23
90,000	493.15	0.2426	$127.00	0.4500	$124,964.14
100,000	547.95	0.2426	$127.00	0.4500	$138,849.04
200,000	1,095.89	0.2426	$127.00	0.4500	$277,698.08
300,000	1,643.84	0.2426	$127.00	0.4500	$416,547.12
400,000	2,191.78	0.2426	$127.00	0.4500	$555,396.16
500,000	2,739.73	0.2426	$127.00	0.4500	$694,245.21
600,000	3,287.67	0.2426	$127.00	0.4500	$833,094.25
700,000	3,835.62	0.2426	$127.00	0.4500	$971,943.29
800,000	4,383.56	0.2426	$127.00	0.4500	$1,110,792.33

PHASE 2 RATES

Therms	Load Factor 25% Demand Amount	Energy Charge	Demand Charge	Proforma B FAC Phase 2	Proposed Bill w/ Fuel	$ Diff. Current vs Proposed	% Diff. Current vs Proposed
1,000	5.48	$0.2873	$137.00	0.4559	$1,493.88	$105.39	7.59%
2,000	10.96	0.2873	$137.00	0.4559	$2,987.77	$210.79	7.59%
4,000	21.92	0.2873	$137.00	0.4559	$5,975.54	$421.58	7.59%
6,000	32.88	0.2873	$137.00	0.4559	$8,963.31	$632.37	7.59%
8,000	43.84	0.2873	$137.00	0.4559	$11,951.08	$843.16	7.59%
10,000	54.79	0.2873	$137.00	0.4559	$14,938.85	$1,053.95	7.59%
15,000	82.19	0.2873	$137.00	0.4559	$22,408.27	$1,580.91	7.59%
20,000	109.59	0.2873	$137.00	0.4559	$29,877.70	$2,107.89	7.59%
25,000	136.99	0.2873	$137.00	0.4559	$37,347.12	$2,634.86	7.59%
30,000	164.38	0.2873	$137.00	0.4559	$44,816.55	$3,161.84	7.59%
35,000	191.78	0.2873	$137.00	0.4559	$52,285.97	$3,688.81	7.59%
40,000	219.18	0.2873	$137.00	0.4559	$59,755.40	$4,215.78	7.59%
45,000	246.58	0.2873	$137.00	0.4559	$67,224.82	$4,742.75	7.59%
50,000	273.97	0.2873	$137.00	0.4559	$74,694.25	$5,269.73	7.59%
60,000	328.77	0.2873	$137.00	0.4559	$89,633.10	$6,323.68	7.59%
70,000	383.56	0.2873	$137.00	0.4559	$104,571.95	$7,377.62	7.59%
80,000	438.36	0.2873	$137.00	0.4559	$119,510.79	$8,431.56	7.59%
90,000	493.15	0.2873	$137.00	0.4559	$134,449.64	$9,485.50	7.59%
100,000	547.95	0.2873	$137.00	0.4559	$149,388.49	$10,539.45	7.59%
200,000	1,095.89	0.2873	$137.00	0.4559	$298,776.99	$21,078.91	7.59%
300,000	1,643.84	0.2873	$137.00	0.4559	$448,165.48	$31,618.36	7.59%
400,000	2,191.78	0.2873	$137.00	0.4559	$597,553.97	$42,157.81	7.59%
500,000	2,739.73	0.2873	$137.00	0.4559	$746,942.47	$52,697.26	7.59%
600,000	3,287.67	0.2873	$137.00	0.4559	$896,330.96	$63,236.71	7.59%
700,000	3,835.62	0.2873	$137.00	0.4559	$1,045,719.45	$73,776.16	7.59%
800,000	4,383.56	0.2873	$137.00	0.4559	$1,195,107.95	$84,315.62	7.59%

CITIZENS GAS & COKE UTILITY

Dollar Impact of Cause No. 43201 on Typical Rate No. 2 Demand Rate Steam Service (Phase 2 - w/o Mfg)
Phase 2 Rates In Comparison to Proposed Phase 1 Rates

PHASE 1 RATES

Therms	Load Factor 50% Demand Amount	Energy Charge	Demand Charge	Proforma A FAC Phase 2	Current Bill w/ Fuel
1,000	2.74	$0.2426	$127.00	0.4500	$1,040.55
2,000	5.48	0.2426	$127.00	0.4500	$2,081.09
4,000	10.96	0.2426	$127.00	0.4500	$4,162.18
6,000	16.44	0.2426	$127.00	0.4500	$6,243.27
8,000	21.92	0.2426	$127.00	0.4500	$8,324.36
10,000	27.40	0.2426	$127.00	0.4500	$10,405.45
15,000	41.10	0.2426	$127.00	0.4500	$15,608.18
20,000	54.79	0.2426	$127.00	0.4500	$20,810.90
25,000	68.49	0.2426	$127.00	0.4500	$26,013.63
30,000	82.19	0.2426	$127.00	0.4500	$31,216.36
35,000	95.89	0.2426	$127.00	0.4500	$36,419.08
40,000	109.59	0.2426	$127.00	0.4500	$41,621.81
45,000	123.29	0.2426	$127.00	0.4500	$46,824.53
50,000	136.99	0.2426	$127.00	0.4500	$52,027.26
60,000	164.38	0.2426	$127.00	0.4500	$62,432.71
70,000	191.78	0.2426	$127.00	0.4500	$72,838.16
80,000	219.18	0.2426	$127.00	0.4500	$83,243.62
90,000	246.58	0.2426	$127.00	0.4500	$93,649.07
100,000	273.97	0.2426	$127.00	0.4500	$104,054.52
200,000	547.95	0.2426	$127.00	0.4500	$208,109.04
300,000	821.92	0.2426	$127.00	0.4500	$312,163.56
400,000	1,095.89	0.2426	$127.00	0.4500	$416,218.08
500,000	1,369.86	0.2426	$127.00	0.4500	$520,272.60
600,000	1,643.84	0.2426	$127.00	0.4500	$624,327.12
700,000	1,917.81	0.2426	$127.00	0.4500	$728,381.64
800,000	2,191.78	0.2426	$127.00	0.4500	$832,436.16

PHASE 2 RATES

Therms	Load Factor 50% Demand Amount	Energy Charge	Demand Charge	Proforma B FAC Phase 2	Proposed Bill w/ Fuel	$ Diff. Current vs Proposed	% Diff. Current vs Proposed
1,000	2.74	$0.2873	$137.00	0.4559	$1,118.54	$77.99	7.50%
2,000	5.48	0.2873	$137.00	0.4559	$2,237.08	$155.99	7.50%
4,000	10.96	0.2873	$137.00	0.4559	$4,474.17	$311.99	7.50%
6,000	16.44	0.2873	$137.00	0.4559	$6,711.25	$467.98	7.50%
8,000	21.92	0.2873	$137.00	0.4559	$8,948.34	$623.98	7.50%
10,000	27.40	0.2873	$137.00	0.4559	$11,185.42	$779.97	7.50%
15,000	41.10	0.2873	$137.00	0.4559	$16,778.14	$1,169.96	7.50%
20,000	54.79	0.2873	$137.00	0.4559	$22,370.85	$1,559.95	7.50%
25,000	68.49	0.2873	$137.00	0.4559	$27,963.56	$1,949.93	7.50%
30,000	82.19	0.2873	$137.00	0.4559	$33,556.27	$2,339.91	7.50%
35,000	95.89	0.2873	$137.00	0.4559	$39,148.99	$2,729.91	7.50%
40,000	109.59	0.2873	$137.00	0.4559	$44,741.70	$3,119.89	7.50%
45,000	123.29	0.2873	$137.00	0.4559	$50,334.41	$3,509.88	7.50%
50,000	136.99	0.2873	$137.00	0.4559	$55,927.12	$3,899.86	7.50%
60,000	164.38	0.2873	$137.00	0.4559	$67,112.55	$4,679.84	7.50%
70,000	191.78	0.2873	$137.00	0.4559	$78,297.97	$5,459.81	7.50%
80,000	219.18	0.2873	$137.00	0.4559	$89,483.40	$6,239.78	7.50%
90,000	246.58	0.2873	$137.00	0.4559	$100,668.82	$7,019.75	7.50%
100,000	273.97	0.2873	$137.00	0.4559	$111,854.25	$7,799.73	7.50%
200,000	547.95	0.2873	$137.00	0.4559	$223,708.49	$15,599.45	7.50%
300,000	821.92	0.2873	$137.00	0.4559	$335,562.74	$23,399.18	7.50%
400,000	1,095.89	0.2873	$137.00	0.4559	$447,416.99	$31,198.91	7.50%
500,000	1,369.86	0.2873	$137.00	0.4559	$559,271.23	$38,998.63	7.50%
600,000	1,643.84	0.2873	$137.00	0.4559	$671,125.48	$46,798.36	7.50%
700,000	1,917.81	0.2873	$137.00	0.4559	$782,979.73	$54,598.09	7.50%
800,000	2,191.78	0.2873	$137.00	0.4559	$894,833.97	$62,397.81	7.50%

CITIZENS GAS & COKE UTILITY

Dollar Impact of Cause No. 43201 on Typical Rate No. 2 Demand Rate Steam Service (Phase 2 - w/o Mfg)
Phase 2 Rates In Comparison to Proposed Phase 1 Rates

PHASE 1 RATES

Therms	Load Factor 75% Demand Amount	Energy Charge	Demand Charge	Proforma A FAC Phase 2	Current Bill w/ Fuel
1,000	1.83	$0.2426	$127.00	0.4500	$924.56
2,000	3.65	0.2426	$127.00	0.4500	$1,849.13
4,000	7.31	0.2426	$127.00	0.4500	$3,698.25
6,000	10.96	0.2426	$127.00	0.4500	$5,547.38
8,000	14.61	0.2426	$127.00	0.4500	$7,396.51
10,000	18.26	0.2426	$127.00	0.4500	$9,245.63
15,000	27.40	0.2426	$127.00	0.4500	$13,868.45
20,000	36.53	0.2426	$127.00	0.4500	$18,491.27
25,000	45.66	0.2426	$127.00	0.4500	$23,114.09
30,000	54.79	0.2426	$127.00	0.4500	$27,736.90
35,000	63.93	0.2426	$127.00	0.4500	$32,359.72
40,000	73.06	0.2426	$127.00	0.4500	$36,982.54
45,000	82.19	0.2426	$127.00	0.4500	$41,605.36
50,000	91.32	0.2426	$127.00	0.4500	$46,228.17
60,000	109.59	0.2426	$127.00	0.4500	$55,473.81
70,000	127.85	0.2426	$127.00	0.4500	$64,719.44
80,000	146.12	0.2426	$127.00	0.4500	$73,965.08
90,000	164.38	0.2426	$127.00	0.4500	$83,210.71
100,000	182.65	0.2426	$127.00	0.4500	$92,456.35
200,000	365.30	0.2426	$127.00	0.4500	$184,912.69
300,000	547.95	0.2426	$127.00	0.4500	$277,369.04
400,000	730.59	0.2426	$127.00	0.4500	$369,825.39
500,000	913.24	0.2426	$127.00	0.4500	$462,281.74
600,000	1,095.89	0.2426	$127.00	0.4500	$554,738.08
700,000	1,278.54	0.2426	$127.00	0.4500	$647,194.43
800,000	1,461.19	0.2426	$127.00	0.4500	$739,650.78

PHASE 2 RATES

Therms	Load Factor 75% Demand Amount	Energy Charge	Demand Charge	Proforma B FAC Phase 2	Proposed Bill w/ Fuel	$ Diff. Current vs Proposed	% Diff. Current vs Proposed
1,000	1.83	$0.2873	$137.00	0.4559	$993.43	$68.87	7.45%
2,000	3.65	0.2873	$137.00	0.4559	$1,986.86	$137.73	7.45%
4,000	7.31	0.2873	$137.00	0.4559	$3,973.71	$275.46	7.45%
6,000	10.96	0.2873	$137.00	0.4559	$5,960.57	$413.19	7.45%
8,000	14.61	0.2873	$137.00	0.4559	$7,947.43	$550.92	7.45%
10,000	18.26	0.2873	$137.00	0.4559	$9,934.28	$688.65	7.45%
15,000	27.40	0.2873	$137.00	0.4559	$14,901.42	$1,032.97	7.45%
20,000	36.53	0.2873	$137.00	0.4559	$19,868.57	$1,377.30	7.45%
25,000	45.66	0.2873	$137.00	0.4559	$24,835.71	$1,721.62	7.45%
30,000	54.79	0.2873	$137.00	0.4559	$29,802.85	$2,065.95	7.45%
35,000	63.93	0.2873	$137.00	0.4559	$34,769.99	$2,410.27	7.45%
40,000	73.06	0.2873	$137.00	0.4559	$39,737.13	$2,754.59	7.45%
45,000	82.19	0.2873	$137.00	0.4559	$44,704.27	$3,098.91	7.45%
50,000	91.32	0.2873	$137.00	0.4559	$49,671.42	$3,443.25	7.45%
60,000	109.59	0.2873	$137.00	0.4559	$59,605.70	$4,131.89	7.45%
70,000	127.85	0.2873	$137.00	0.4559	$69,539.98	$4,820.54	7.45%
80,000	146.12	0.2873	$137.00	0.4559	$79,474.26	$5,509.18	7.45%
90,000	164.38	0.2873	$137.00	0.4559	$89,408.55	$6,197.84	7.45%
100,000	182.65	0.2873	$137.00	0.4559	$99,342.83	$6,886.48	7.45%
200,000	365.30	0.2873	$137.00	0.4559	$198,685.66	$13,772.97	7.45%
300,000	547.95	0.2873	$137.00	0.4559	$298,028.49	$20,659.45	7.45%
400,000	730.59	0.2873	$137.00	0.4559	$397,371.32	$27,545.93	7.45%
500,000	913.24	0.2873	$137.00	0.4559	$496,714.16	$34,432.42	7.45%
600,000	1,095.89	0.2873	$137.00	0.4559	$596,056.99	$41,318.91	7.45%
700,000	1,278.54	0.2873	$137.00	0.4559	$695,399.82	$48,205.39	7.45%
800,000	1,461.19	0.2873	$137.00	0.4559	$794,742.65	$55,091.87	7.45%

CERTIFICATE OF SERVICE

I hereby certify that a copy of the "Supplemental Direct Testimony and Exhibits of Carey B. Lykins, William A. Tracy, LaTona S. Prentice and Kerry A. Heid" was served by hand-delivery this 27th day of April, 2007 on the following:

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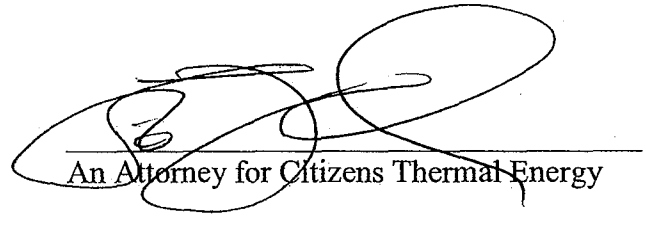

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